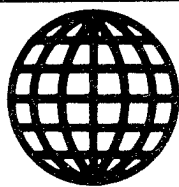


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# ***JPRS Report***

# **China**

## ***RED FLAG***

No 12, 16 June 1988

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12 August 1988

[Translation of HONGQI, the semimonthly theoretical journal of the Central Committee of the Communist Party of China published in Beijing]

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### **Base Planning on Law of Value**

*HK1407055388 Beijing HONGQI [RED FLAG] in Chinese No 12, 16 Jun 88 pp 2-5, 22*

[Article by Wang Jiye 3769 4480 2814]

[Text] The report of the 13th National Party Congress pointed out: "The system for the socialist planned commodity economy should be one of internal unity of planning and the market." It also pointed out that several fundamental concepts need to be made clear as far as this problem is concerned. One of them is that "we must build planning work on the basis of an exchange of commodities and the law of value." This calls for consciously applying the law of value; properly arranging important proportionate relations in the national economy; correctly handling the relations between stability and growth speed and results, quantity and quality, construction and people's lives, and so forth; and linking up the operation of the macro and microeconomy in closely combining reform and development. Here I just roughly give a few points of understanding in my studies about the operation of the law of value and the improvement of planned management.

### **To Put Planning Work on the Basis of the Law of Value Requires Us to Study the Fundamental Demands of the Law and Apply It at Important Levels and Basic Links of Planned Management.**

One of the fundamental demands of the law of value is for the magnitude of value to be determined by required social labor time. This stimulates and forces commodity producers to strive to reduce input and turn out the best possible products to meet social needs with a minimum of material consumption. Therefore, the fundamental point of the law of value lies in improving economic results. Improving economic results should constitute the fundamental principle that must be followed in socialist planned management. Whether we can improve economic results to the fullest extent and in an overall manner—this should be taken as the main criterion in selecting a highly effective way of economic regulation. With improved economic results as a prerequisite, we must arrange important proportionate relations in the national economy and strive to seek speed and development on the basis of results. The focus of the effort to improve economic results calls for maximum output with minimum input. Therefore, in planned management, we must realistically link input with output and bring about the close combination of power, responsibility and benefits. This is to help improve economic results. To this end, the investments, materials, and foreign exchange at the disposal of the state, except for those required by policy, must be gradually put to use and proper results obtained. While delegating power and yielding benefits to enterprises and localities, the state must clarify obligations and responsibilities. Enterprises and localities using their own funds for construction and other economic activities must be responsible for their own profit and loss and ready to accept risks.

Another demand of the law of value is the exchange of commodities at equal value on the basis of the magnitude of value determined by required social labor time. This requires the state to enable producers to receive rational economic benefits when handing down mandatory plans to enterprises; by introducing the system of ordering goods on a contract basis; and applying the economic lever and the pricing mechanism in particular. Where non-mandatory plans are concerned, the state must enable both the producer and the buyer to receive deserved the economic benefits. Economic exchanges between different areas should also be based on the principle of an exchange of commodities. Many contradictions now exist between areas that must be solved immediately. They are due to the irrational pricing system. The material-producing areas are unwilling to send their primary products to coastal areas to be processed to earn foreign exchange. In solving this problem, the allotment of materials on the basis of mandatory plans not only fails to bring about a fundamental solution but, on the contrary, serves to aggravate the matter. There should be a shift away from the system of planned allotment, to contracting for goods ordered. This way of exchanging commodities should be used to develop horizontal economic ties and increase economic and technical exchanges between areas; to enable areas to exploit their local superior features and bring about mutual help. During reform, there has already appeared a gratifying momentum in the development of horizontal ties: a flow of capital from eastern areas to middle and western areas, and a flow of resources from middle and western areas to eastern areas in support of the latter's construction effort. This tells us that the system of allotting materials by relying mandatory plans has begun to disintegrate. Economic and technical exchanges between areas, with the exchange of commodities at equal value as the main pattern, have grown increasingly. The key elements of production are shifting in a rational direction and help to solve the contradictions between material-producing areas and processing areas. It is also a shortcut to the acceleration development in middle and western areas. We must make horizontal economic ties an important component in our planning work; we must provide support, coordination and guidance, so that horizontal ties between areas or enterprises can gradually expand and develop in depth. The externally oriented development strategy introduced in coastal areas, and the horizontal ties established with inland areas cannot be weakened, and should instead be strengthened. Apart from continuously promoting cooperation in developing energy and raw materials and cooperation in the technical field, we should organize a greater degree of integration, with some foreign exchange-earning exports as the main target—doing so in line with the new focus on the international market. For example, we can take coastal enterprises as the dragon head and organize export enterprise groups with inland enterprises. This allows exported inland raw materials to be processed and also imported raw materials to be initially processed in inland areas and further processed in coastal areas. Some coastal areas with an

advantageous position for developing a diversified rural economy can join inland provinces and areas in developing grain production, in order to spare local land resources for the development of a foreign exchange-earning agriculture. In introducing various forms of economic integration, the demands of the law of value should be realized. In such respects as foreign exchange, funds, and so forth, an equal share of benefits should be brought about.

To realize the above two fundamental demands of the law of value, the most important thing is to have a well developed market and a rational pricing system. Given our country's low-level productivity and uneven development, a perfect market for the means of production can hardly form in a given period of time, it is especially difficult to develop perfect markets for money and other key elements of production. This deprives the law of value of a wide scope for asserting its role. Moreover, the irrational pricing system and a price structure that seriously runs counter to the law of value make it difficult to fully implement the principle of exchange at equal value, and offset to quite a large degree, the role of the law of value in forcing commodity producers to reduce input and increase output or improve economic results. This is because commodity producers can also reap profits by marking up prices without lowering input and increasing output. The most concentrated reflection of an imperfect market system and an irrational pricing system is the failure of the price signal to play a proper guiding role in the allocation of resources. At present market competition is mainly non-price competition, with real price competition just in its initial stage. Given this situation, planning work must give full consideration to the perfection of the market as a long-drawn out and arduous process. There is a need to maintain the fundamental stability of commodity prices in the process of opening up the market, by controlling the too rapid growth of overall demand and striving to increase supplies. Meanwhile, an effort should be directed toward developing the market and improving the market structure. This is to create conditions for forming a perfect and open market system with prices generally rational, thus providing a fine environment for the assertion of the role of the law of value in a wider area.

**Basing Planning On the Law of Value Is a Fundamental Change in Planned and Macroeconomic Management. The Most Important Thing Is to Emancipate the Mind Further, Change the Traditional Concept of Planning, and Foster a Concept of Planning Suited to the Development of a Planned Commodity Economy.**

Currently, our commodity economy is not well developed, and the market is not perfect enough. There are still many conditions restrictions to the full development of the regulatory role of the market. We cannot idealize its role and expect it to regulate all economic activity. In different types of economic activities and at different levels of economic management, only by giving play to the regulatory role of planning and the market, and

organically combining the two can we consciously apply the law of value. Here regulation based on planning no longer means regulation by relying on mandatory plans in its traditional sense. Regulation based on planning will be divided into two categories—direct regulation by plans and indirect regulation by plans. Direct or indirect regulation by plans must embody the principle of exchange at equal value and material interests. Direct regulation means planned regulation by applying the market mechanism. Indirect means planned regulation through the medium of the market. Therefore, the matter of basing planning work on the law of value should not be interpreted as a case of narrowing the scope for planned regulation. Instead, it calls for changing the situation of carrying out unified regulation by relying on mandatory plans, and for gradually narrowing their scope. This will enable more economic activities to gradually change over to indirect regulation, with regulation by the market guided by plans. As this kind of regulation responds to guidance by plans, it is fundamentally different from that of an entirely spontaneous market. Moreover, as regulation by the market also permeates through direct regulation by plans, direct regulation by plans is distinguished from the past kind of regulation by mandatory plans that rejected the market mechanism. Thus, regulation by plans and regulation by the market both have new implications.

**Basing Planning Work on the Law of Value Calls for Shifting the Focus from a Balance in Quantity in a Single Case to a Balance in Overall Quantity and from a Balance in Goods or Commodities to a Balance in the Magnitude of Value. Most Important Is the Proper Handling of a Balance Between Overall Supply and Overall Demand.**

A fundamental balance between overall supply and demand is a fundamental link in guaranteeing steady economic development and is the key to the maintenance of the fundamental stability of commodity prices. We may look at things, as far as a relatively long period of time ahead is concerned, Supply exceeds demand, with a portion of resources forced to lie idle, which would reduce the speed of economic growth likely to be achieved. Demand exceeds supply, with the consumption of resources outstripping an increase in supply, causing the economy to be either overheated or stagnant at a time. Supply in excess of demand, or demand in excess of supply will bring about fluctuations in the national economy, causing enterprises to face a hostile external environment. Currently, progress toward an overall balance is marked by demand exceeding supply. This determines the focus of efforts to regulate and control overall quantity as the suppression of social demand. During a long period of demand obviously exceeding supply, a great strain will be put on relations in various fields. The bottleneck of the national economy will increasingly narrow. Not only will products in short supply fail to meet demand but also a sharp increase in demand for products not in short supply. This will put a still greater strain on energy, transportation, and the supply of fundamental raw materials. The irrational

industrial mix cannot be effectively readjusted and things will worsen. Meanwhile, due to excessive demand and too rapid growth, there will be a major change in the mix of things in demand, further widening the gap of the mix of products. The contradictions between the mix of supplies and the mix of things in demand will become more acute, with the momentum of a rise in commodity prices more difficult to check. If residents do not receive an appropriate increase in income and if enterprises cannot absorb the rise in commodity prices to a certain degree, the consumption level of the people will inevitably be lowered and the stability of the economy and the development of reform will be affected. Therefore, the maintenance of a fundamental balance between overall supply and overall demand is an important task, or objective of planning work. To realize this objective, we cannot follow old ways represented by mandatory plans. Instead, we should achieve our end through economic means. First, we must regulate overall social demand through financial and monetary policies. Second, we must regulate overall social supply by controlling, in a planned way, the production and sale of products, which are in extremely short supply and which have a bearing on the national economy as a whole.

**Basing Planning Work On the Law of Value Calls for Shifting the Focus of Planned Management to a Set Industrial Policy, In Order to Realize the Best Allocation of Resources.**

Regulation by plans and regulation by the market are two ways of allocating resources. The allocation of resources is divided into two categories—long-term and short-term allocation. The former is a problem of readjusting the structure of the base of the national economy. The latter involves existing production and circulation. The long- or short-term allocation of resources must follow the demands of the law of value and play the role of regulation by plans and by the market. Long-term allocation of resources chiefly involves the building of fundamental facilities, fundamental industries, high-technology industries and pace-setting industries that call for a large amount of investment, a long period of construction and the injection of only an input without output in a given period of time. Can long-term allocation of resources be subject to regulation by the market? First, long-term allocation of resources by relying on the market calls for too lengthy a period of time and does not help in accelerating the process of modernization. Second, due to competition in this process losses and waste appear that national resources cannot absorb. Third, it is very difficult for the market to reflect the long-term trend of change in social demand. This, coupled with a distortion of prices and profits, is liable to cause investment mistakes, with rational allocation of resources difficult to bring about. Relatively speaking, long-term allocation of resources being through regulation by plans based on the market mechanism is likely to produce better results. State plans reflect and get hold of the target of the economic development strategy, they can tell the long-term trend of change. Therefore, subjecting

the long-term allocation of resources to regulation by plans can improve macroeconomic results as a whole. One of the important conditions calls for bringing the market mechanism to investment management and using economic means to manage priority construction funds. Bank loans, and foreign capital borrowed [by the state] in a unified manner that are devoted to priority construction must be used with proper rewards given. A strict responsibility system involving the use of money invested, its recovery and its multiplication, is to be established with expected economic results achieved. In design and construction enterprises, the system of inviting tenders and offering bids should be universally introduced. This is to give play to the role of the market and the mechanism of competition. Generally speaking, plans chiefly put forward the targets of resource allocation and ways of raising funds and providing financing. The process of construction should proceed according to the principles of the market.

The scope that the short-term allocation of resources involves chiefly covers substantial enterprise production and operating activities, technical transformation, and relatively small-scale construction activities. If short-term allocation of resources is regulated by plans, as in the past, a series of defects are likely to arise. First, plans cannot get hold of complicated and ever-changing short-term needs, with excessive intervention and even blind command likely to arise. Second, enterprises are often bound by planned arrangements. Input is not linked to output. Enterprises often show no concern for the market, the fate of products and good or bad economic results. Third, enterprises are taken care of by plans in regard to production, supplies and marketing. When problems arise, they turn to the state, feeding on the "big rice pot." The short-term allocation of resources based on regulation by plans presents a large host of problems. Subjecting short-term allocation of resources to regulation by the market is likely to cause a certain degree of spontaneity and blindness. But generally speaking, advantages outweigh disadvantages. For example, profitable products, especially light industrial and textile products, are of great variety with many patterns involved. The market response changes very quickly. Regulation by the market of enterprises producing these products in regard to their establishment, transformation and activities related to production, supply, marketing can enable production to better suit demand and make short-term allocation of resources basically satisfactory. Therefore, large hosts of economic activities that do not involve or infringe upon state priority construction investments must be liberalized to the largest possible extent and subjected to regulation by the market, with indirect regulation and control by the state.

**Basing Planning Work on the Law of Value Calls for Shifting the Direct Target of Planned Management from Enterprises to the Market and Guiding Enterprises Through the Market, in Order to Turn the Market into a Link Between the State and Enterprises and Between Enterprises.**

Relations between the state, the market and enterprises can be studied in a "dual" order. In the order of "enterprises, the market, and the state," enterprises are the fundamental link. As producers and operators of socialist commodities, enterprises represent the core of market activity. To perfect, develop and build up a market, we must create a fine external environment for the development of enterprises to serve their further revitalization. In the order of "the state, the market, and enterprises," the state will take care of increasing economic activities through the market. The mechanism of operation will, on the whole, be a matter of "the state regulating the market, and the market guiding enterprises." In a broad sense, concerning most economic activities, the state takes unified plans as a basis, regulating the market through various economic parameters and economic policies and exercising indirect control over enterprises by guiding enterprises through the market. Meanwhile, over important economic activities that have to do with national planning and the people's livelihood, the state will exercise a certain degree of direct control. But it must also pay attention to market needs and consciously apply the law of value. In construction, our country still needs to grab hold of a portion of investments when it comes to the deployment of productive forces, and devote it to the building of important projects; in production, grab hold of a portion of important enterprises and exercise direct control over them; in circulation, to control a portion of resources in rare supply, with the distribution of energy and certain raw materials included. All these are important, but there must be certain limits to quantity and scope where state control is concerned. With too much withheld, there will be a return to the old system consciously or unconsciously, or the existing dual system would become fixed, with clashes and contradictions very difficult to solve. It will not help in the transition to the new system. With too little withheld, there will not be enough to guarantee steady economic growth and for continuity. The general trend should be one of the portion under direct control gradually shrinking and the portion under indirect control increasing. Most of the economic activities now under direct control should be gradually put on the orbit of operation with "the state regulating the market, and the market guiding enterprises."

The new mechanism of "the state regulating the market, and the market guiding enterprises" is actually composed of two different kinds of contents. One is regulation of the market by the state. Another is the market guiding enterprises. Whether there is a need for the state to regulate the market—this is an important indicator that sets apart the planned commodity economy from the spontaneous market economy. The planned development of the commodity economy in regard to macroeconomic or microeconomic activities must be realized through the market. Such a market must be a market planned, or guided by plans, or a market regulated by the state. Such a market can give play to the regulatory role of the law of value and also reduce the negative effects caused by a spontaneous market. But regulation of the

market by the state should not be interpreted as the state subjecting the market to unified control. Unified control of the market is actually unified control of enterprises. This will inevitably lead to a return of the old system in a different form, and interfere with the development of a planned commodity economy. On the other hand, it will not do to leave the market alone, with everything dictated by the market. This is not conducive to long-term stability and the coordinated development of the economy. We must get hold of the fundamental factors that affect market conditions and carry out regulation with priorities in mind. We must contribute toward the sustained revitalization of enterprises and also stimulate the development and improvement of the market and the great development of the planned commodity economy.

State regulation of the market should also include state efforts to help enterprises build up markets and guide them in making correct operating decisions in line with changing market needs.

To be capable of responding to market guidance, enterprises must have a perfect internal restraining mechanism, thoroughly break away from the bonds of administrative organs, and gradually step on the path of separation of ownership and management. The introduction of the contract system by enterprises helps in strengthening internal self-restraints. While promoting the contract system in enterprises we must study macroeconomically, how to use credit, taxation, pricing, and other economic levers to prevent enterprise behavior being put on a short-term basis. Meanwhile, we must bring the mechanism of competition to the contract system, creating conditions for capable entrepreneurs to shine forth. Only in this way can enterprises keenly and quickly respond to the market direction, organize production and operating activities to meet market needs and compete successfully.

In sum, the new mechanism of the "state regulating the market, and the market guiding enterprises" can enable the law of value and the market mechanism to play an important role in the whole process of economic operation, thus thoroughly getting rid of the old system's defect of excessive concentration and inflexibility and greatly adding to the vitality of economy. Moreover, given such a new mechanism, the combination of planning and the market in a three-dimensional manner [as published], the subject in economic operation can follow a kind of principle, and the planning and the market mechanism can be better linked in operation, with integration brought about at various levels in various fields. The smooth transition from the old system that rejects the market mechanism to the new system is realized. Contradictions and clashes arising from combination in the old way are ended. Planning work is realistically put on the basis of the law of value.

## Deepen Financial Reform, Promote Economic Development

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[Article by Zhu Fulin 2612 4395 2651]

[Text] Over the past 9 years, reform of the economic structure has gradually been unfolded from the rural areas to the cities. The urban reform has started with finance. This is because if we fail to reform the previous excessively centralized financial management system characterized by unified state control over income and expenditure, the economy will not be invigorated and other reforms will also be restricted.

### I. A Brief Review of the Financial Reform and Supporting Reforms

In reform of the economic structure the state finance assumes a dual task: As an important component part of the overall reform, it should accomplish its own reform; as a center for the distribution of national income, it should vigorously coordinate with various reforms to stimulate the development of production. To sum up, over the past 9 years the state finance has carried out "five reforms and two supporting reform measures."

The five reforms are:

1. Reform the budget management structure, delegate financial power to the lower levels, and increase the financial power of the localities. Since 1980 the state has instituted a budget management system of "serving meals to different diners from different pots," namely, the system of "dividing revenue and expenditure between the central and local governments and holding each responsible for balancing their budgets." Later, on the basis of substituting taxes for the delivery of profits by state enterprises, the state has made new improvements by implementing a budget management structure of "dividing tax categories between the central and local governments, verifying revenue and expenditure, and holding each responsible for balancing their budgets." These reforms are characterized by proper delegation of financial power to the lower levels to enable the local finance to combine responsibility, authority, and benefit. Meanwhile, central finance has also adopted a financial structure and a preferential policy toward areas inhabited by ethnic minorities; it has also adopted necessary financial policies and measures toward the special economic zones and open coastal cities, as well as the cities approved by the State Council to conduct economic restructuring on an experimental basis, thus greatly boosting reform and opening up. By 1986, the budgetary financial power of local finances at all levels accounted for about 50 percent of the state's total budgetary financial power. In this way, the situation whereby the central and local authorities eat from the same pot has been initially changed, the enthusiasm of the local authorities to open up financial resources and

to increase both production and income has been aroused, the sense of responsibility of leaders at all levels to independently manage money affairs and to balance revenue and expenditure has been strengthened, and the practice of "one household being responsible for balancing the revenues and expenditures of a thousand households" has been turned into one of "all people jointly shouldering a 1,000-jin load."

2. Readjust the profit distribution relationship between the state and enterprises, increase the percentage of profit retained by enterprises and the funds for enterprise renovation and transformation, and raise the capacity of enterprises to accumulate funds for transformation and development. The principal measures taken are as follows: (1) We have extended the financial power of state enterprises by various means, such as institution of enterprise funds, profit retention, substitution of taxes for the delivery of profits, and various forms of making enterprises responsible for their own profits and losses. In the state budget during the Sixth 5-Year Plan period, the profits retained by state enterprises throughout the country rose at an average rate of 26.7 percent annually. In 1986 the enterprise disposable profits, plus the pre-tax repayment of loans, accounted for 52.4 percent of the realized profits, much higher than the 4.1 percent in 1978. (2) To ensure economic growth, the state has adopted various measures, such as tax reduction and profit concession, toward key enterprises, as well as exclusively-owned enterprises, joint ventures, and enterprises run with overseas Chinese capital. From 1979 to 1986 the accumulated amount was 137 billion yuan. (3) Beginning in 1983, the state gradually raised the depreciation rate for the fixed assets of state industrial and communications enterprises; beginning in 1985 all the depreciation funds, which amounted to more than 30 billion yuan, was placed at the disposal of enterprises. Moreover, the state has also allowed enterprises to repay the short-and medium-term bank loans for technological transformation of fixed assets before paying the income tax. This comes to about 10 billion yuan a year. In this way, the enterprise financial power for self-transformation comes to at least 40 billion yuan a year.

3. Reform the taxation system and bring into play the role of taxation as an economic lever. In 1979 we started experimenting with the substitution of taxes for the delivery of profits and in 1983 and 1984 we instituted this system in two steps. It was an important reform of the distribution relationship between the state and enterprises and of the industrial and commercial tax system. It has enabled our country to initially complete the change from a unitary tax system to a complex tax system. The state has regulated the enterprise profits at two levels: First, through reform of the industrial and commercial tax system the state has divided the industrial and commercial tax into four categories, namely, the product tax, value added tax, salt tax, and business tax. It has also levied a resource tax in an effort to ease the irrational contradiction in the pricing system and overcome the contradiction caused by the wide gap in

resource differential earnings; second, the state has levied an income tax and a regulatory tax on realized profits and let the enterprises independently dispose of their after-tax profits. Due to various internal and external factors, the substitution of taxes for the delivery of profits should still be improved in the course of reform. But practice has proven that the substitution of taxes for the delivery of profits has improved the enterprise operational environment and changed the situation in which the financial revenue has dropped for several years running. For this reason, it has great superiority.

4. Reform the financial system of administrative and other institutions and the science and technology appropriation system and raise the efficiency of the funds used. Beginning in 1980 the state adopted a method of fixed budgets toward administrative and other institutions. It manages those institutions with the necessary conditions as enterprises; it has also instituted a circulation fund system toward cultural and educational units which have income and economic repayment capability. It has exercised classified management on the science and technology appropriation system and encouraged the paid transfer of scientific and technological achievements, thus promoting the development of the science and technology market. Moreover, it has also changed the financial allocation in support of agriculture into compensated use of funds. Financial departments at all levels have extensively established a circulation fund system in support of agriculture. This has played a marked role in promoting the rural commodity economy.

5. Reform the method of managing funds for budgetary capital construction projects. Beginning in 1980, all allocations to capital construction projects carrying out independent accounting and having repayment capability was changed to the granting of credits, on which differential interest rates were collected according to different trades and professions. By the end of 1985, most of the allocations for budgetary capital construction projects were changed to credits and by the end of 1986 the credit balance was 50.8 billion yuan. Although there are still some problems in the reform, taken as a whole, however, the change from financial appropriation to the granting of credits conforms to the objective requirements of economic restructuring and the development of commodity economy and raises to a certain extent the efficiency of funds used by the construction units.

The two supporting reform measures are:

1. It has coordinated with the price reform and promoted the development of the socialist commodity economy. From 1979 to 1986 the state spent a total of 350 billion yuan on price reform and price subsidies. (1) It has coordinated by readjusting the purchase prices of farm and sideline products. Since 1979 the state has considerably raised the purchase prices of farm and sideline products on several occasions. Compared with 1978, the

general index for the purchase prices of farm and sideline products rose by 77.5 percent. This has increased the peasants' income and greatly boosted agricultural production. To offset the effect the price adjustments might have on the livelihood of urban residents, the state has spent several dozen billion yuan annually on price subsidies. From 1979 to 1986 the state spent a total of 159.5 billion solving the problem of the state purchasing farm and sideline products at prices higher than their selling prices and making up for the losses. (2) It has coordinated by readjusting the prices of important means of production and transport fares and thus promoted the development of the energy, communications, and raw materials industries. To offset the effect of the price adjustments on some processing industries, the state has granted subsidies to help enterprises absorb the price reform. (3) It has coordinated by readjusting, and relaxing controls over, the prices of some consumer goods. Since 1979 the state has on several occasions raised the retail prices of many kinds of nonstaple food and readjusted, and relaxed controls over, the prices of some manufactured consumer goods. Moreover, in light of the effect of price rises on the people's livelihood, the state has also increased the wages of workers and staff members or issued price subsidies to them. In the past few years, the state has spent a considerable amount of money subsidizing the prices of nonstaple food and pork.

2. It has coordinated with the reform of the labor wage system to enable the people to really benefit from the reform of the economic structure. (1) It has coordinated with the enterprise wage reform. Before 1984 the state primarily made compensatory wage readjustments, restored the system of rewards, and expanded the decisionmaking power of enterprises in issuing bonuses. Since 1984 the state has conducted numerous forms of reform on the distribution of wages and bonuses in enterprises. During the Sixth 5-Year Plan, the total wages of the workers and staff members in budgetary state enterprises increased at an average of 9.3 percent annually and the per capita wages increased from 747 yuan in 1979 to 1173 yuan in 1985. From 1979 to 1986, state enterprises spent 187.9 billion yuan on the wage reform and on readjusting the wages of workers and staff members. Of this, the state reduced its income by over 60 billion yuan to coordinate with the wage reform in enterprises. (2) It has coordinated with the reform of the wage system in government organs and public organizations. Before 1984 the state readjusted on numerous occasions the wages of workers and staff members in government organs and public organizations. In 1985 the state abolished the outdated rank-salary system and instituted a structural salary system based on pay according to one's posts. Later, it again adopted improvement and supplementary measures and experimented on a system of appointment for special technical posts. From 1979 to 1986 the state organs and public organizations spent about 80 billion yuan on wage reforms and readjustments. Of this, the state spent an additional sum of 77 billion yuan.



## II. The Difficulties Faced by State Finance and Their Causes

Since the Seventh 5-Year Plan, the relatively large deficits in state finance and the sharp contradictions in balancing budgetary revenue and expenditure have brought great difficulties to the state finance. In my view, they are difficulties in the course of our advance and the result of comprehensive interaction by various contradictions in our advance.

Viewed from our national conditions, China's level of productive forces is low and its GNP on a per capita basis is around 900 yuan. China is a low-income developing country. Its huge population constitutes a heavy burden. Children under the age of 15 account for 33.4 percent of the total population. Economically, they come under the category of non-productive population and are a "burden" to society. If, for some time to come, our national income increases by an average of 70 billion yuan annually, a considerable portion of this will be consumed by the increased population. Moreover, it is also necessary to consider increases in social security charges and various public spending, as well as improvements in the people's living standards. If we spend 30 billion yuan of our national income improving the people's livelihood, there will be an average of only 30 yuan for each person. To ensure the staying power of our economic growth, it is also necessary to engage in construction. Therefore, it is difficult to fundamentally change in the near future the situation of China's insufficient financial power.

Let us view from the practical situation. First, unsatisfactory enterprise economic results have deprived increased revenue of a solid basis. For example, compared with 1985, the cost of comparable products rose by 7.4 percent in 1986; the profits and taxes of budgetary state enterprises from every 100 yuan of sales income dropped by 1.5 yuan; the amount of losses suffered by industrial enterprises increased by 2 billion yuan, an increase of 74 percent, and the number of enterprises operating at a loss increased by 33.8 percent; and circulating funds increased by 19.9 percent while the turnover rate slowed down by 6.8 days. This resulted in serious arrears of tax payments, bringing difficulties to financial distribution.

Second, finance is in the intersection of economic growth and economic reform and for this reason various contradictions are fairly concentrated on it. Undoubtedly, reforms will boost economic development. However, they should be conducted through simpler administration, decentralization, and mobilization of the enthusiasm of the local authorities and enterprises. Therefore, decentralization means redivision and reformation of financial power. On the one hand, to fundamentally raise the people's living standards, the state finance should make great efforts to increase outlay for economic construction and various undertakings and to develop pro-

duction. From 1981 to 1986 the expenditure on budgetary capital construction projects totalled 276.7 billion yuan. Outlay for cultural, educational, scientific, and health undertakings more than doubled, an average annual increase of 16 percent. It also increased considerably in 1987. On the other hand, the implementation of all policies and measures in economic reform has affected the state finance by reducing state revenue and increasing state expenses. For example, most price reforms have caused price rises and, to avoid increasing the burdens of enterprises and people, it is necessary to increase subsidies, to abolish the pre-tax repayment of loans, to reduce the income tax rate, and so on. In addition, the lack of coordinated policies during the reform, which counteract the roles of levers, and the short-term acts of some enterprises have been reflected in the state finance in a concentrated manner. Moreover, quite a few reform measures were put forward in the course of implementing the budget but were not included when the budget was being working out. This has also placed the state finance in a difficult position.

Third, being in the intersection of economic structure and political structure, the state finance is greatly affected by various factors. There are no stipulations on the highly centralized system and the relative decentralization of economic power in terms of quality, quantity, and degree. For this reason, governments at all levels do not have clear-cut economic functions, which has resulted in ill-defined financial power and a "big pot" in financial expenses and made it difficult to set up genuine finance at different levels; the lack of perfect decision-making and legal systems has inevitably led to wilful decisionmaking and made it difficult for the state finance to deal with the wilful reduction or exemption of taxes and additional expenses demanded by "various departments"; the ill-defined functions of some government institutions has led to unwieldy and overstaffed organizations, which in turn has considerably increased administrative expenditure; and overanxiety for success in the guiding idea for economic construction has also widen the breaches in our funds. In the Seventh 5-Year Plan, since the state finance has to shoulder various important tasks, such as deepening economic reform, increasing agricultural input, stepping up the construction of infrastructure, increasing investments in intellectual resources, and improving the people's living standards, there is a notable contradiction between capital demands and the capability of the state finance to meet them.

## III. The Key To Solving the Financial Difficulties Lies in Deepening the Reform

Fundamentally speaking, improvements in the financial conditions depend on the development of social productive forces, while the key to developing the productive forces lies in deepening the reform of the economic structure (including finance). In my view, the objective of the financial reform is to establish a socialist finance of

the operational and management type with the Chinese characteristics. It should at least contain the following aspects: 1) It should conform to the requirements of the development of the planned commodity economy, effect changes in financial functions, and quicken the development of the productive forces; 2) on the basis of steady production growth and improved economic results, it should achieve a steady increase in revenue and the gradual prosperity of the state financial power so as to ensure the constant development of all undertakings; 3) it should play a positive role in invigorating the economy and opening up to the outside world; and 4) it should make overall arrangements for the use of the society's financial power to promote economic rejuvenation. To this end, we should coordinate with political and economic restructuring by voluntarily deepening the financial reform. This chiefly includes, among other things, deepening the internal enterprise reform and the reform of financial and taxation management structures; deepening the reform within the financial departments, changing the concept of managing money matters, and improving work style and management methods so that our country's finance is full vigor and vitality. At present, we should concentrate on solving the following five questions:

1. Deepen the enterprise reform and improve the operational mechanism within enterprises. Enterprises serve as a solid foundation for the creation of national revenue. In my view, the aim of deepening the enterprise reform is to turn the mechanism of reliance in the relationship between enterprises and the state into one of independence, improve the enterprise responsibility system, and solve various questions, such as poor business results and enterprises being responsible only for profits rather than losses, so that the enterprises can genuinely become relatively independent, self-restraint socialist commodity producers and operators with decision-making power in operations and responsible for profits and losses. To this end, it is necessary to do the following: (1) It is necessary to start with the internal enterprise reform, straighten out the distribution relationship within the enterprises, and overcome egalitarianism so that the wages and the distribution of bonuses can genuinely arouse the workers' enthusiasm. Moreover, it is necessary for enterprises to assume business risks and to take clear-cut, feasible operations objective as a motive force so that the enterprises will place their actions on a long-term and rational basis. (2) It is necessary to create relatively equitable competitive conditions for enterprises and a material basis for their self-development. In deepening the enterprise reform, there are bright prospects for the financial departments. They should help enterprises strengthen management and improve the internal economic accounting system so that the workers and staff members can benefit from the newly-increased returns; guide enterprises to rationally use the consumption funds in order to identify them with growth of the labor productivity; improve the functions of the existing enterprises in managing money matters and study and experiment the methods of managing state assets; and constantly sum up experience and

integrate the contract system with the substitution of taxes for the delivery of profits, thus creating conditions for the gradual standardization of the distribution relationship between the state and enterprises and the reform of the system of dividing tax categories. It can be expected that once the enormous potential of the enterprises is set free, it will open up tremendous sources of revenue for the state finance and lay a foundation for the balance between revenue and expenditure.

2. Readjust the revenue and expenditure setup and preserve the macroeconomic regulatory and control [tiao kong 6148 2235] capability. Measures should be taken to raise the proportion of the financial revenue in the national income and the proportion of the central financial revenue in the nation's national income so that our finance can have financial power corresponding to the development of economic construction and various reforms. Practice proves that the direction of the reform of the system of dividing tax categories is correct but it also shows some imperfections needed to be improved. In particular, because our economic reform has started in the field of distribution based on more distribution of wealth. Viewed from the angle of "giving in order to take," this is quite necessary to invigorate the economy and change the practice of overconcentration of financial power. However, in order to preserve the staying power of economic growth, we should not exclusively devote ourselves on the distribution of wealth because necessary accumulation of wealth is also a reform. We should improve reform in the course of reform and flexibly coordinate various reform measures. For example, collecting taxes for the use of cultivated land in the rural areas and for the use of land is a major question of opening up financial resources and protecting our land resources; to adjust people's and social consumption, we should improve as quickly as possible the methods of collecting personal income regulatory tax; to coordinate with the reform of the social security system, we may include the workers' retirement and pension funds and unemployment security funds in the state budget and manage them as a special item. The aim of carrying out these measures is to improve the macroeconomic management system and bring into play the role of finance and taxes in regulating the economy.

3. Improve the tax system and the form of financial management. In coordination with the establishment and improvement of the enterprise operational mechanism, we should improve the tax system and reform the method of borrowing and paying special funds. We should create conditions to suit financial expenditure with the government powers to handle things, gradually establish a level-to-level budget structure centering on the division of tax categories, and straighten out the distribution relationship so that the distribution functions of the financial departments can be effectively brought into play. Moreover, we should also improve the method of the central finance giving subsidies to local finance; pay attention to analyzing the budget funds; manage and use well budgetary and extrabudgetary funds; study complex budget; establish the financial

circulating fund system; vigorously create conditions to develop financial credit and to raise funds for key construction projects by issuing economic construction bonds and make the state treasury bonds enter the capital market in a planned way; and develop the overseas financial market and adopt numerous methods to attract more foreign capital to make up for the deficiencies in our domestic construction funds.

4. Reform the revenue and expenditure management work and foster the concept of achieving better economic results in the distribution of funds, which means that we should promote resources development and economic rejuvenation through the distribution of funds. In the future, the state finance should strive to create conditions to establish and improve a responsibility system for the use of funds.

5. Proceed from our national strength in coordinating with various reforms in down-to-earth way. We must have a sober understanding of our national conditions and national strength. Not only should we energetically coordinate the reform but we should also realistically work out the accounts so that the reform measures will not exceed the capacity of our finance to withstand the strains. We should explain to the people that the practical benefits the people gain in reform can last only when the economic steadily develop for a long time. We should also uphold the spirit of hard work and thrift, oppose extravagance and waste, and save all financial expanses that can be saved.

To financially coordinate various reforms more satisfactorily and to support the development of all socialist undertakings, I deem it necessary for the financial departments to uphold the principle of keeping expenditures within the limits of income and persist in balancing revenue and expenditure rather than practicing a deficit budget. Of course, this does not mean mechanical balancing. Ours is a big country with an annual revenue of over 200 billion yuan. It is not something terrible for us to have some deficits in certain fiscal years. Naturally, it is definitely not advantageous to the economy if the deficit is too big and if it happens year after year. There are indeed deficits in developed capitalist countries. They do not regard this as a good thing and try by every possible means to remove the effects it causes. Moreover, the state finance should also take a realistic view of the situation, raise the capability of the financial structure to deal with the emergencies, and promote the strengthening of China's economic power.

#### **Brief Analysis of the Necessity, Possibility and Measures for Developing Insurance Services in Tibet**

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[Article by Doje Cering, chairman of the Tibet Autonomous Regional People's Government]

[Text] Insurance is a new undertaking in Tibet Autonomous Region. Since the first insurance business was

done in our region by the Tibetan sub-office of the People's Insurance Company of China on 27 March 1987, a total of more than 2.9 million yuan in premiums have been received, providing an economic guarantee for more than 4,000 motor vehicles and the property of more than 50 enterprises and a small number of households. Certain economic and social benefits have been achieved and the important functions and roles of economic indemnity of insurance have been brought into play.

#### **I**

Developing the undertaking of insurance is a demand of the socioeconomic development. It is a pressing task at present, especially for Tibet.

First, insurance is necessary as there are frequent natural calamities in our region and accidents often occur.

Since liberation, our party and government have done a great deal of work to prevent natural calamities in our region. The disastrous consequences of natural calamities have been reduced or controlled in varying degrees. Even so, natural calamities and accidents are still unavoidable. Our region has an area of more than 1.2 million square kilometers. Every year there must be some places being afflicted by all kinds of natural calamities. In our daily life and production, accidents are also unavoidable. Tibet has entered socialism directly from the feudalist serf system. It is the most undeveloped region in our country. Under such conditions, to ensure the continuous development of social production, we must not merely rely on social relief, financial verification, self-guarantee of enterprises, and other methods to make up for the losses caused by natural calamities and accidents. An effective method is to actively develop the undertaking of insurance and give full play to its roles of economic indemnity so that the continuous operation of enterprises and the people's livelihood can be guaranteed by turning unpredictable losses into fixed and small sums of insurance premium.

Tibetan rural economy has been developed into the socialist stage from the feudalistic manor economy. Self-supporting and partly self-supporting economies are in a dominant position. Tibetan agriculture and animal husbandry have been developing very slowly all these years. There are many reasons for this, but an important reason is that serious natural calamities have brought about reduction of agricultural output and increasing death toll of animals. Even to this day, the peasants and herdsmen are still incapable of fighting against natural calamities with their own strength. Therefore, it is necessary to strengthen their ability to resist natural calamities and prevent unexpected accidents so as to ensure the steady development of rural society. Thus, it is necessary to make use of insurance to shift all kinds of risks.

Second, insurance is necessary in developing tourism. Tibet, a "mysterious" place with distinctive regional and national features, has always been attractive to tourists and explorers all over the world. As a result of implementing the policy of reform and opening up, it will certainly become a promising hot spot of tourism. The development of tourism urgently demands that all kinds of insurance businesses be established, such as high-land travellers' accident insurance and mountaineering insurance, so that corresponding services can be provided for travellers.

Third, insurance is also necessary in promoting import and export trade and trade among the inhabitants living in the border areas. In international trade, insurance is necessary for both import and export commodities. If we do not have our own insurance company we will have to apply for insurance to foreign insurance companies when developing foreign economic relations. This is unfavorable to us either regarding the insurance responsibility and premium income or our country's effort to promote foreign trade and international economic relations. In the past, as our region did not have any insurance companies, we had to spend large sums of foreign exchange to buy insurance from abroad for our import and export commodities. Some applications were made in Beijing, Shanghai, Tianjin, Guangzhou, and Sichuan Province, which were quite inconvenient to us in developing foreign trade and unfavorable for our region in promoting foreign economic relations.

## II

Tibet is a national autonomous region with very special political, economic, cultural, and natural conditions. It occupies an important position in safeguarding national unity, defending the southwestern borders of the motherland, realizing political stability and unity of our country, and promoting socialist modernization. Since liberation, especially since the 3d Plenary Session of the 11th CPC Central Committee, it has achieved certain development in its economic construction. In 1987, its gross value of industrial and agricultural output reached 1.19 billion yuan, and remarkable achievements were made in various fields including energy production, communications, and culture and education. It can be predicted that its economic development will surely provide the development of its insurance undertaking with a sound basis and good conditions, and that this undertaking will surely be rapidly developed along with the development of the Tibetan economy.

First, the vigorous development of agriculture and animal husbandry has laid a foundation for the development of insurance. With its vast land, sufficient sunshine, broad pastureland, and abundant water resources from snow-covered mountains, Tibet has very good conditions for developing the rural economy. Judging from the overall situation of the region's rural economy, the agricultural and stock raising population constitutes more than 85 percent of the total population, and the

gross agricultural output value makes up more than 80 percent of the gross value of industrial and agricultural output. This shows that agriculture occupies a very important position in its national economy. Therefore, based on an overall, comprehensive, and long-term point of view, running rural insurance business is of important realistic and far-reaching significance to the development of rural economy in Tibet and to the implementation of the principle of "proceeding in all cases from the realities of Tibet and doing everything for the development of productive forces in Tibet and the prosperity and happiness of the Tibetan people," which was put forth by the regional party committee. It is also an effective measure to set people's minds at rest, develop commodity production, and speed up the pace of helping poor areas to get rich.

Second, the development of tourism and foreign trade provides insurance undertaking with a sound basis. Surrounded by hills and mountains, Tibet autonomous region has a forest of snow-covered mountain peaks. It has more than 50 high peaks with an elevation of over 7,000 meters, including 5 peaks over 8,000 meters. Owing to its colorful landforms, there are wonderful sights everywhere with distinguishing Tibetan features. On this mysterious land, there are numerous hard-working, brave, wise, and honest Tibetan people. Their long history and age-old culture, their pious religious belief and unsophisticated feelings and folk custom, and the numerous scenic spots and historical sites are all attractive to travellers both from home and abroad. In 1987, the region received a total of 43,000 foreign visitors. The rise of tourism has promoted Tibet's economic and cultural exchange with the outside world and has forcefully promoted the development of nationality handicraft industry, service trade, transport, and telecommunications. In 1987, the region earned a total of \$9.96 million through export, which was the highest in history. Moreover, there is also an increasing number of foreign businessmen coming to Tibet to discuss matters concerning economic and technological cooperation. Contracts have been signed on a number of cooperative and joint-venture projects. But in all these fields, there is a problem of insurance. This is especially so in tourism, as the number of both Chinese and foreign visitors is increasing. Without insurance, the visitors, who feel not safe, will be unwilling to come. Thus, we are required to run the insurance business well so that the safety of tourist spots and lines and the personal safety of visitors can be ensured and the development of foreign trade can be guaranteed.

Third, the exploration of natural resources, including energy resources, and the development of transport and communications and nationality industries have created conditions for the development of insurance. Tibet has rich energy and mineral resources. Some 70 mineral resources have been found in this region, including 27 resources with proved workable reserves. Chromite and borax reserves are among the highest in our country. Natural hydro-energy reserves in our region are about

200 million kw, of which more than 56 million kw are exploitable. The region has more than 12,000 trucks for civil use, with a total loading capacity of nearly 60,000 tons. There are 21,600 km of roads open to traffic. Local industries play an important role in our regional economy. The carpets produced in Lhasa and Jiangze are world famous. Since 1980, some 12 products have been awarded by relevant ministries. However, to speed up the exploration of natural resources, promote the construction of key projects and energy exploitation, and develop communications, transport, and nationality handicraft industries, it is necessary to increase their ability to resist all kinds of natural calamities and run risks through insurance.

### III

To speed up the development of insurance undertaking in Tibet, it is necessary to work out concrete measures in light of the specific characteristics of this region, such as a vast expanse of land with a small population, dispersed and scattered enterprises, inconvenient communications, small capacity of market, little insurable property, and the fact that the masses still lack the sense of insurance.

First, it is necessary to run the insurance business in an economical way and at a low premium rate.

To help Tibet develop its commodity economy, the People's Insurance Company of China has worked out a "low premium rate" preferential insurance policy for it. Apart from that, it is also necessary to run this business in an economical way. There should not be too many administrative organs. Responsible cadres above the section chief and office director levels should also handle concrete businesses with company staff. Thus, not only will the number of administrative personnel be reduced but also the phenomenon of shirking responsibility can be avoided. For example, having only 25 cadres, the regional insurance company has received about 3 million yuan in premiums in as little as several months, at an average of more than 100,000 yuan per person. At the same time, it is necessary to seek more agents and agent companies, such as banks, financial units, public security organs, and communications, tax, foreign trade, tourist, and civil aviation departments, so that more businesses can be handled with the limited hands.

Second, it is necessary to link insurance closely with the work of fighting natural disasters and helping the poor.

Since liberation, especially since the 3d Plenary Session of the 11th CPC Central Committee, our party and state have adopted a series of effective measures to resist natural disasters and reduce losses incurred by natural disasters. In 1987 alone, the relief funds provided by the civil administration department reached 11.8 million yuan. However, we must realize that since our country is still not rich, only a limited number of areas and people can be provided with such relief, and the relief can only

help them solve some basic problems such as food, clothing, housing, and medical treatment, rather than compensating all their losses. In the long-term effort to help people tide over natural disasters, we often try to find a new way to substitute the old and passive way of relief so that the masses can reduce their losses after natural disasters and can rapidly restore and develop production with their own strength and so that they can have a stable income. To combine insurance with the work of helping people tide over natural disasters and helping the poor, or to combine the insurance department with the financial and civil administration departments so that they can jointly carry out this task, is actually a good method to solve this problem.

Third, it is necessary to carry out propaganda on insurance in light of the realities of Tibet and the distinctive nationality features.

Insurance is a new thing in our region. Quite a few people still do not understand it. Some people may know something about it, but they may only know very little about it. Most people have an idea of leaving things to chance, thinking that "the raindrop may not hurt my eye." In view of this, we must forcefully carry out a propaganda on insurance work.

In our propaganda, we must proceed from our realities and deal with different people in different ways, paying special attention to the distinctive nationality features. There are different nationalities and different people engaging in different trades and professions in our society. Naturally, they have different views and attitudes toward insurance. Therefore, we must adopt different methods in light of different audiences when doing propaganda. We must not only pay attention to doing propaganda among the masses, but must also pay attention to doing propaganda among the leading cadres, in the army, and in the upper circles.

Propaganda on insurance should be combined with the study of theory and strategy. It is necessary to request the relevant departments in the economic theory circles and press and educational circles to strengthen theoretical study and propaganda on insurance. At present, an important reason the Tibetan people are unfamiliar with insurance is that the economic circles have not paid enough attention to the theoretical study of insurance. Therefore, we must ask them to study the question of risk management. If we have made a conscientious study of this science and raised our theoretical level in enterprise management, our propaganda will naturally be further carried out in depth.

Propaganda work should be carried out in light of the characteristics of the insurance business so that it can be organically combined with the development of business in certain places and in a certain period. Meanwhile, it is also necessary to handle well the matters concerning insurance indemnities and carry out propaganda by presenting the experience of those units and individuals

who have participated in insurance and comparing them with those who have not. The masses are always paying attention to the actual material benefits. If those units and individuals can really get indemnities from the insurance company and the indemnities are offered promptly, everyone can see with their own eyes the advantages of participating in insurance. Thus, there will be a chain reaction in society and a better result will be achieved in our propaganda.

At present, reform of the economic structure is being carried out in depth in our region, which facilitates the development of the socialist commodity economy. The undertaking of insurance, which is an inevitable outcome of the commodity economy, is receiving more and more attention from the people of various nationalities, various circles, and all trades and professions in our region. It becomes an important force in our region for promoting production, reducing losses incurred by disasters, improving the well-being of the people, and accumulating construction funds. The socialist insurance undertaking is playing and will continue to play an important role in our region.

#### Reform State-Owned Economy Through 'Separation of Two Powers'

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Chinese No 12, 16 Jun 88 pp 14-17

[Article by Xiao Liang 2556 0081]

[Text] 1. Separation of two powers is a reliable way to deepen reform.

China's economic structural reform has developed to an extent which requires reform of state ownership adopted by ownership by the whole people.

We have carried out a series of reforms in the state-owned economy over the past few years. For example, the extension of decisionmaking powers of enterprises, the change from state allocation of funds to loans granting, reduction of the scope of mandatory planning, and implementation of the economic responsibility system. Through these reforms, enterprises have been invigorated and remarkable changes have taken place in the relations between the state and enterprises and between enterprises and workers; in the links of production, exchange, and distribution; and in the comparison between the current state-owned economy and the state-owned economy under the old system. However, these reforms did not touch the main framework of state ownership. Moreover, no substantial changes were effected in the problems such as "ownership by the whole people, but nobody among the whole having ownership of anything," the short-term behavior of enterprises, enterprises assuming responsibility for profits but not for losses, and enterprises eating from the "big

pot" of the state while workers eating from the "big pot" of enterprises. For this reason, we had to find the reason from ownership and probe into the reform of the state-owned economy.

Regarding reform of the state ownership, the economic theoretical circles proposed many schemes and countermeasures which include ownership by enterprises, corporate ownership, dummy ownership, economy on a share basis, mixed ownership, shareholding system, and ownership by laborers. Although these proposals have enlightened the people, some of the tentative ideas are still far from reality or have not fundamentally transformed the old system. As the reform of the state-owned economy is extremely important and also difficult, I think we should adopt a vigorous and prudent attitude, apply the regular methods of the Western countries suitable to the development of socialized production and a commodity economy to readjust the relation of ownership, and on the premise of upholding public ownership, take a safe road in which we can advance with big strides. This is what we mean by deepening the separation of two powers and reforming the state-owned economy through separation of two powers.

#### 2. The original meaning of separation of two powers.

While studying the question of ownership, Marxist classical writers, particularly Marx and Lenin, repeatedly used the concepts of ownership, possession, control, and use, believing that ownership determined the right of possession, control, and use and that the four powers could be exercised by different bodies. They also repeatedly mentioned separation of the function of ownership from the right of management and command. The separation of ownership from the right of operation mentioned nowadays is actually another version of separation of the four powers. The right of operation and management over capital goods is actually a common expression of possession, control, and use of capital goods by enterprises.

The opposite of separation of two powers is merging of two powers. If merging of two powers originally meant that one body exercised ownership as well as the right of operation and management, that is, the owner of capital goods directly operating and managing an enterprise, separation of two powers should be comprehended as the owner transferring the right of operation and management to another person (entrepreneur). Viewed historically, individual economy is a typical form of merging of two powers. Within a long period in the initial stage of capitalist development, many individual capitalist enterprises were operated and managed by the capitalists themselves. Obviously, the right of enterprise operation derived from and was determined by capital ownership. Separation of two powers gradually became a universal phenomenon when capital owners transferred the right of enterprise operation and management to enterprises or entrusted them to perform the functions after the vigorous development of capitalist production. For the

sake of meeting the developing needs of socialized production, a capital owner transfers the functions of enterprise operation and management to his agent or an entrepreneur because the owner may not be proficient in operation and management. When the scope of enterprise production and operation gradually expands, the social relations of production become more extensive, technical equipment of production becomes more sophisticated, and the market competition is more intense, and when the capital owners find it difficult to exercise management over such mass production, they will transfer the functions of enterprise operation and management to special entrepreneurs.

The state-owned economy under socialist conditions is an economic form with a high degree of socialization and considerable development of mass production. Naturally, the two powers should also be separated in this regard. The socialist state which embodies the will of the owner should not undertake the operation and management of thousands upon thousands of enterprises. Herein lies the defect of the old system which we overlooked in the past.

While advocating the shareholding system, some comrades believe that the advantage of the system is the merging of two powers within enterprises. Does the shareholding system separate the two powers or merges them? In my opinion, the shareholding enterprises have appropriately separated the two powers. If the shareholders are regarded as owners, they generally do not exercise management over the enterprise in which they own the shares. This means that the two powers are separated. The appointment of managerial personnel and the policy decisions concerning enterprise strategic problems made by the board of directors on behalf of the owners also constitute separation of two powers. How can it be regarded as merging of two powers?

According to my understanding, so long as the right of enterprise operation is not performed directly by the owner, it should be considered separation of two powers.

### 3. Some types of separation of two powers.

The development of separation of two powers in a capitalist economy has provided us with different types of separation of two powers. While carrying out reform, we can draw on the experience of the separation of two powers developed under the capitalist system.

The separation of two powers under the capitalist system can generally be classified into the following three types and three development stages:

First, the capitalists (owners) turn over their enterprises to special entrepreneurs for operation and management. Here separation of ownership from the right of operation is relative and not thorough. The owners have the decisionmaking powers over major issues of enterprises, while the directors are but the housekeepers (managers)

of the capital owners. However, the functions performed by these housekeepers have eventually been separated from capital ownership because the housekeepers are not owners. They perform the functions of regulation, supervision, and command for the capitalists. Marx pointed out: "The capitalist mode of production has brought matters to a point where the supervision work, entirely divorced from the ownership of capital, is always readily obtainable. It has, therefore, come to be useless for the capitalist to perform it himself. An orchestra conductor need not own the instruments of his orchestra, nor is it within the scope of his duties as conductor to have anything to do with the 'wages' of the other musicians."<sup>1</sup> It is thus clear that the powers of a conductor are limited.

Second, functional separation of money-capital and industrial capital from commercial capital. With the development of the credit system, the capital used by a capitalist engaged in operation does not have to be totally owned by himself because he can borrow it from a money capitalist. Here the two functions are separated in form into capital owner and capital user. The capital owner who is not involved in the production process obtains interests from ownership (creditor's rights), while the capital user who is involved in the production process obtains income as an entrepreneur through the practical use of capital. Obviously, ownership is now totally separated from the right of operation.

It should be explained here that operation of an industrial capitalist with borrowed capital actually means that he has made use of other's capital as his own. Hence, he is actually a capital owner rather than merely a capital user. In other words, he has made use of the borrowed capital as his own. This is also the case in the shareholding system. If he cannot acquire practical ownership, it would be impossible for him to have overall rights of operation and management. To distinguish between the two kinds of ownership, Marx applied the concepts of legal ownership and economic ownership. He believed that a money capitalist is the capital owner legally, while an industrial capitalist is the "economic capital owner when he makes use of the capital."<sup>2</sup> Because the "creditor who is divorced from the production process performs the functions of the owner outside the process"<sup>3</sup>; while the industrial capitalist makes use of capital and performs the "functions in the process of labor."<sup>4</sup>

Nevertheless, we cannot confuse a capitalist with his manager. While performing the functions of the production process, an industrial capitalist still has to separate economic ownership from the rights of operation and management. Hence, it is absolutely possible to integrate the above-mentioned separation of two powers, that is, separate the two powers within and outside enterprises. Now some comrades consider the former separation in a second significance, while regard the latter as separation in a first significance. In my opinion, separation within an enterprise is separation of two powers in the original sense, while separation outside an enterprise is thorough as it constitutes the externality of the former separation.



Third, a money owner becomes owner of shares, while the capital operator has become a corporate owner. This is a new trend of the century, particularly following World War II. With the development of the shareholding system, limited companies in particular, and with the decentralization of company share capital, the shareholders cannot directly interfere in enterprise operation through their control over the board of directors, though they are eventually the owners of enterprise assets. The members of the board of directors may not be shareholders, but they can perform the functions of the owner. The impact of the shareholders on enterprise operation can only be realized through transfer of shares and putting more pressure on enterprise production. The independence of enterprises is enhanced because of the complete separation of two powers outside the production process and of the relative separation of two powers within the production process. As a result, organization and management of an enterprise can further meet the needs of commodity economic development. This is the meaning of corporate ownership as mentioned by some comrades. It indicates that an enterprise has truly become owner of a corporation which is different from the eventual owner of enterprise assets.

The above-mentioned three forms of separation of two powers and their development can be considered a development of separation of two powers from a low to high level and from inside to outside. It reflects the needs of socialized production and commodity economic development. We should draw experience from this while carrying out reforms.

#### **4. Reform of the state-owned economy can be deepened along the road of separating the two powers.**

By following the road of separating two powers step by step, it will be possible to reform the public-owned state enterprises into vigorous commodity producers and operators who carry out independent operation and assume sole responsibility for their profit and loss. Moreover, this road is relatively safe and realistic. The method is:

The first step: Through extending the decisionmaking powers of enterprises, duly separate the right of operation from ownership exercised by the state in a unified manner. Although we have done a great deal of work in this regard, there are still tremendous obstacles and the powers delegated to enterprises are intercepted by the intermediate links. Consequently, the powers of enterprises are limited and elastic. As the reforms are not well-coordinated and the responsibility, rights, and benefits of enterprises are not balanced, invigoration of enterprises is restricted and the question of short-term behavior of enterprises is prominent. Therefore, extending the decisionmaking powers of enterprises can only be the starting point and transition of reform rather than its destination.

The second step: Through contract, leasing, and the shareholding system, further separate enterprise ownership from the right of operation, which includes leasing some state-owned small enterprises to the collectives for operation or changing them into collective enterprises. Although the role and functions of these forms vary, they can promote separation of two powers to a certain extent and reduce interference in enterprise administration by state organs and competent departments. Comparatively speaking, leasing is better than contract and the shareholding system is better than leased operation because a leased operation can totally separate the two powers while contract cannot prevent the administrative interference from government departments. However, both contract and leased operation cannot easily solve the question of short-term behavior like that in the shareholding system. Moreover, they are not standardized as the shareholding system and they cannot not personify ownership as in the shareholding system. It is because the current conditions are not yet ripe to universally implement the shareholding system that several forms are allowed to coexist and that we have to do a good job of contract and leased operation. The target of this step is to weaken ownership, enhance the right of operation, deepen enterprise reform, and invigorate enterprises. Nevertheless, we cannot totally separate the two powers at this step.

The third step: Through implementing the shareholding system which includes joint ownership, corporate ownership, and collective ownership of enterprise, the state collects interests, dividends, or asset occupancy expenses by relying on ownership of funds to ensure appreciation of the original assets. Enterprises enjoy absolute right of operation which is performed by the board of directors, management committee, and entrepreneur, respectively. Actually, ownership is divided from one to two, that is, ownership of value and ownership of material. The state maintains ultimate ownership of its investment, while enterprises obtain practical ownership of the means of production. Meanwhile, a mechanism restricting separation of two powers should be established within an enterprise in which the enterprise can handle its supply, production, marketing, and personnel matters, while the state can make use of the economic lever and its influence on the market to guide enterprise activities. In this way state ownership is totally separated from the right of enterprise operation. As separation of two powers is clear within enterprises, they can exercise management and restrict themselves, independently carry out operation, and solve the question of short-term behavior.

It is a long development and reform course to deepen separation of two powers under the conditions of public ownership. We should be clear about the general orientation, that is, state-owned enterprises should move from relative independence to absolute independence, from having partial right of operation to having complete right of operation, and have economic rights.



5. At present it is necessary to clearly define that enterprises have the right to own, invest, and distribute their funds.

To enable enterprises to have absolute right of operation, they should first have the right to own, invest, and distribute their funds.

Regarding state investment, even under the conditions of the shareholding system, it is still owned by the state. In this regard, enterprises only have the right of possession and use. The funds retained by enterprises after paying taxes and delivering profits (interests and dividends under the shareholding system) to the state should be regarded as state ownership in an ultimate sense, but enterprise ownership in a relative sense, the income gained from this which will be shared among enterprise workers within a certain period. Only by doing so can we arouse the enthusiasm of enterprises and workers which is different somewhat from state investment.

This question was discussed long ago by the theoretical circles. While probing into the factors of enterprises owned by the collectives in ownership by the whole people a few years ago, I also regarded it as a component of enterprises owned by the collectives. However, the state does not have definite stipulations on the question and separate accounts are set up for state funds and enterprise funds. It seems that further defining ownership of the funds will be advantageous to reform. As the shareholding system is being tried out, it is necessary to encourage enterprises to pool shares. If an enterprise does not have the right to own its funds, how can it pool shares and make further investment? Only when enterprises are allowed to make investment between themselves by pooling shares can we realize rational distribution of resources. Moreover, the practice of reform has given rise to enterprise mergers and purchase of property rights. The positive significance of this should be fully affirmed. If an enterprise does not have the right to own its funds, how can it carry out business? To arouse the enthusiasm of enterprises and workers, it is also necessary to link total wages of an enterprise with its economic results, gradually allowing enterprises to distribute their funds independently. If an enterprise does not have the right to own its funds and independently make decision on the use of the funds, it will be impossible to link wages of an enterprise with its economic results. Therefore, the real meaning of separation of two powers is to define that an enterprise has the right to own, invest, and distribute its funds. As in the shareholding system, it is required by the defining of the relation of property rights.

Naturally, these reforms can turn out positive results only when they meet the functional change of the state's economy and the improvement of the state's macroeconomic management and readjustment.

#### Footnotes

1. "Capital," Vol 3, p 435

2. "Collected Works of Marx and Engels," Vol 26 (III), p 565

3. Ibid., p 511

4. Ibid., p 500

**On the Role of the Shareholding System in Deepening Enterprise Reform**  
*HK1407120188 Beijing HONGQI [RED FLAG] in Chinese No 12, 16 Jun 88 pp 18-22*

[Article by Liu Guangdi 0491 0342 4574]

[Text]

#### I. What is a Shareholding System?

The theoretical circles have had several years of discussions on the shareholding system. Recently, a new round of discussions was started. I found that not only the view-points expressed in these discussions were very different, the concepts used were different too. Some people consider that a cooperative system is a shareholding system; some people regard the joint-venture system as a joint-venture shareholding system; and some people called the joining of the funds of several whole-people enterprises the system of shareholding among labors; and so on. Since the concepts are different, it is very difficult to make a precise judgment. I wrote an article before to differentiate between shares and the shareholding system<sup>1</sup>. I consider that the scope of the concept of shares and the concept of shareholding economics is very wide, and a shareholding system is composed of rigid components. A shareholding system is a product of an expanded and socialized commodity economy. At the same time, it is also a product of the development of the contradictions of socialist modes of production. It is composed of joint-stock companies, shares, and stock markets. It cannot be formed without any one of these. The cooperative system, joint-venture system and the system of shareholding among labors currently implemented in China, in meaning, are not typical shareholding systems. It is because these systems are being implemented by simply joining funds and material objects of participants, and the property right relations among participants are being expressed in the form of shareholding. Moreover, no shares have to be issued, and shares are not listed and circulated in the market. Therefore, these shareholding systems are created by China through the practice of socialism, and are different from the shareholding system developed in capitalist societies. It should be clearly defined that the shareholding system that we are going to discuss is, in form, a shareholding system similar to that developed in capitalist societies, and it meets the needs of the development of a socialized and expanded commodity economy.

The system of shareholding has a history of several hundred years. Being a product of the development of a commodity economy, it has played and is continuing to

play a great role in rapidly accumulating funds in a society, breaking up regional blockades, realizing profit maximization, and promoting the development of commodity economies. However, being a product of the development of fundamental socialist contradictions (funds have to be concentrated, and the ownership of funds is diversified), the applicability of a shareholding system in large socialist state-owned enterprises has to be carefully studied.

A socialist commodity economy is a socialized and expanded commodity economy; and there is objective inevitability for its existence and development. Many collective enterprises, Chinese-foreign joint ventures, private, individual, small or even rather small medium-sized enterprises in China have adopted the shareholding system, and preliminary results are achieved. There is no controversy over these developments. The focus of the question lies on: Is the shareholding system the target, direction, main-line and key of the reform of large state-owned enterprises? Some people consider that the implementation of the shareholding system can change the traditional public ownership system into a modern public ownership system, and it will expand the public ownership system. Therefore, they hold a resolute and positive attitude toward this. However, some people consider that the shareholding system is a product of the development of fundamental capitalist contradictions, and the implementation of shareholding system is the retrogression of the public ownership system. Therefore, they hold a resolute negative attitude toward this. I consider these merit discussion in depth.

## **II. Is the Reform of the Form of Public Ownership the Key to Economic Structural Reform?**

Comrades who hold a positive attitude toward the shareholding system consider that the reform of the form of public ownership is the key to the success of economic structural reform. At the same time they interpret the reform of the public ownership system as reform of property right relations, and consider that the implementation of the shareholding system is the best method to reform property right relations. Therefore, we should begin our discussion from the question whether the reform of the form of public ownership is the "key" to economic structural reform.

I believe it is theoretically not really tenable, and not practical in practice to sum up ownership system reform as property rights relations, and to regard that property rights relation is the key to structural reform. I am going to explain this in the following points:

First, ownership system is not equal to property rights relations.

People who hold that reform of the ownership system is the key to and the main-line of reform also regard ownership system as a property rights relation. To me this viewpoint not in accord with the meaning of an ownership system.

Marx considered that an ownership system has two meanings: 1) An ownership system is an aggregate of productive relations, which are determined by a certain degree of productive forces. It means that an ownership system is determined by production, exchange, allocation, and consumption relations. 2) Ownership is also expressed as property rights relation, which decides who owns the properties. These two meanings of an ownership system imply that property rights relations are determined by productive relations. However, over a long period, people often regard the right to occupy and the right to own the means of production as the preconditions for a production process, and do not see them as the results of the operation of a production process. Therefore, people always tend to circle around the question of property rights, and do not realize that within the Chinese model of public ownership, there are still problems, which have to be improved, in the links of production, exchange, distribution, consumption, and so on. For example: In the link of production, there are problems concerning the functions of government and enterprises, the production targets of enterprises, the management of the society by enterprises, fairness and efficiency, and so on; in the link of exchange, there is the problem of price; in the link of distribution, there is the problem concerning the policy of distribution according to labor, and so on. These problems, in the first place, are problems concerning productive relations. If these problems are not solved in a good way, and efforts are only concentrated on the question of property right, the target of deepening enterprise reform cannot be achieved.

Second, the question on whether to keep or to abolish the system of state ownership.

Currently, some comrades hold the idea that the focus of the reform of public ownership system should be on abolishing the system of state ownership. I do not agree with this. Being a fundamental system, the state ownership system cannot be abolished, though the model of state ownership should be improved continuously. The system of state ownership existed long ago. Marx and Engels said: "The first form of property, in the ancient world as in the Middle Ages, is tribal property.... In the case of the ancient peoples, since several tribes live together in one city, tribal property appears as state property." <sup>2</sup> Since the time states were formed, the system of state ownership has existed under different social systems, and has served different classes and countries. Then, should state ownership system exist in a socialist society? Marx and Engels considered that the state ownership system is a method by which a society is transformed to a social ownership system when the proletariat has obtained power. It cannot exist permanently. During the early period of the formation of social

ownership systems, the form of "occupying by the state" can be adopted. Lenin continued to develop their ideas and considered that the state ownership system is not only a transitional form by which a socialist public ownership system is formed, this system itself is a form in which socialist public ownership system is expressed. Moreover, the state ownership system, together with the cooperative system, are the two main pillars of the model of public ownership. Lenin considered that the state ownership system should not be abolished, but should be perfected.

After the success of the revolution in China, the system of state ownership has played an important role. However, the form of this system has yet to be improved. We cannot consider that, under the new system, it cannot meet all the requirements of the development of a commodity economy, and it should be replaced by other ownership systems. Here, we should distinguish between a fundamental system and the form of a system. Being a fundamental system, the system of state ownership is a product of socialized large-scale production, and socialized productive forces have determined that they should be matched by socialized productive relations. Under the condition that the state still exists, large-scale enterprises thus can only be handled by the state, which plays the role of being the center of a society. This completely meets the requirements of the objective law that productive relations are determined by productive forces, and property rights relations can only be determined by the productive relations of state ownership. The problems in the past were mainly due to: Our unclear understanding of the system of state ownership; the rigidity of the form of system adopted; and our thinking that it is better to have more state-owned enterprises, and it is better for the state to have centralized management of enterprises. We did not realize that the existence of the system of state ownership is a result of the extensive development of the productive forces of a society; and the system of state ownership is only suitable for large-scale enterprises, and it should not be adopted in small-sized enterprises. As a result, we expanded the scope of state-owned enterprises in an unlimited way. This has, in theory, violated the principle that socialized productive relations are determined by socialized productive forces. Therefore, we should now turn the large number of small-sized and rather small medium-sized enterprises, which in the first place should not be put under state ownership, into non-state-owned enterprises according to the principle of transferring with compensation. Moreover, the ownership of these enterprises should be transferred in accordance with the principle that property rights relations are determined by productive relations, so that the development of productive forces can be facilitated. For large-scale state-owned enterprises, the form of state ownership should be changed as soon as possible. I think that the new form of state ownership should be built on the separation between ownership and management power, and should become a form of state ownership whereby enterprises are independent in management and operation.

What is the meaning of separation between ownership and management power? I feel that we should interpret the term management power in a wide scope, and should not interpret it in a narrow sense. When enterprises have management power, it does not rule out that they can also have a certain degree of ownership. If enterprises do not have any ownership, they will not have any management power. Marx talked about the two meanings of the "separation between the two powers"—the separation between ownership and management power; and the separation between legal ownership and economic ownership.<sup>3</sup> The modern legal entity system divided the meaning of ownership into ultimate ownership of natural person and enterprise legal entity ownership. I think that such an interpretation is of practical help to implement the principle of separation between ownership and management power.

In order to maintain the leading position of the state ownership system in the public ownership system, the state should no longer have management power over state-owned enterprises; and the state should only have legal ownership or ultimate ownership of them. That means the assets or funds of enterprises should ultimately belong to the state. The state should give up the power to directly use or control the properties of enterprises. It can only, through the market, use economic levers to indirectly influence the use and management of the assets of enterprises. To ensure the power of enterprises to make independent management decisions, enterprises should, in practice, own and use state-owned properties, and should also have the power to manage the properties and to allocate the returns of them. That means, enterprises should have economic ownership and legal entity ownership. When an enterprise has economic ownership and legal entity ownership, it becomes, in form, a civilian main body, which exists independently and does not depend on the ultimate owner of its properties. Moreover, it should have property right, should be responsible for civilian responsibilities, should eliminate administrative interference, and should positively develop various business activities.

I think that the main method to reform large-scale state-owned enterprises is to implement the practice of separation between ownership and management power, and the separation between legal ownership and economic ownership according to the nature of enterprises. To reform the form of the public ownership system is, in the first place, to perfect the model of the system of state ownership, and not to abolish the system of state ownership.

Third, the relationship between price reform and the ownership system reform.

Some comrades consider that the failure of economic structural reform is due to the failure of price reform, and the success of economic structural reform is determined by the success of the reform of the ownership system. I consider that the result of price reform have a

decisive role in determining the result of economic structural reform and the reform of ownership system, and price reform is as important as ownership system reform. China's price structure is extremely irrational. It is shown, in particular, in the low price of land products (agricultural products, mining products), and in the high price of manufactured industrial products. The low price of land products is mainly due to the neglect of the excess profit in the price structure of land products. Under the conditions of a commodity economy, differential of the productive forces of land will inevitably bring excess profit differential. In the past, the price of land products did not contain excess profit, i.e. no rent was collected. Therefore, the benefits of the low price of land products were transferred to manufacturing industrial enterprises. The result was: Enterprises producing land products got less returns from more work, while enterprises producing manufactured products got more returns from less work. Thus, no body is willing to invest in the production of land products, and every body is willing to participate more in the production of manufactured products. In the aspect of ownership, and for enterprises producing land products, it is difficult to change the ownership system or to clearly define the property right relations of them. It is because they have been suffering losses over a long period of time, or are earning no profit. As a result, when the state adopts the practice of separation between ownership and management power, or implements the system of contracted responsibility in these enterprises, they will have insufficient enduring capability. However, it is relatively easy to reform the ownership system of enterprises producing manufactured products. It is because they can obtain excess profit (i.e. rent) without work. In view of these, for both the land in urban areas and in rural areas, the practice of using land with compensation should be adopted, so that the price of land products should include rent, the price system can gradually become rational. These developments can thus benefit the reform of the ownership system, and can match the proportional development of the national economy. At present, China has just adopted the policy of using land with compensation, and the right to use land is transferred by open bidding. This is an important measure to smooth the price system, and it is also an effective way to accumulate funds.

Fourth, the relationship between distribution according to work and reform of the ownership system.

One of the basic characteristic of socialism is the thorough implementation of the policy of distribution according to work, which is based on the principle of equivalent labor exchange. Only when the principle of equivalent labor exchange is really realized, can each laborer obtain a corresponding amount of returns according to his laboring contribution. Even though the laborers do not directly own the properties, and the properties belong to the state, their enthusiasm for labor will not be affected. For socialist laborers, is the owning of and being constrained by benefits important, or is the

owning of and being constrained by properties important? Practice has proved that, the former is far more important than the latter in large-scale enterprises. Only when we can resolutely and thoroughly implement the principle of equivalent labor exchange, the ownership of properties will become insignificant to the laborers themselves. Laborers are the masters of enterprises. This status is mainly shown in that they are real masters in the whole process of production and distribution; and it does not necessarily mean that they must have ownership of the properties. Some comrades over-emphasized that the reform of ownership system is the key question. It is mainly due to that they have neglected the basic characteristic that, in socialized mass production and under a socialist system, the owning of benefits is far more important than the owning of properties. Practical experience also clearly showed that to whom an enterprise belongs to is not an important matter. The important point is that the power, responsibilities, and interests of an enterprise are clearly defined, and enterprises can have the right to participate equally in market competition. It is obvious that China's large-scale state-owned enterprises at present still lack these conditions.

I believe that if we want to regard the reform of the public ownership system as the key to economic structural reform, then we should first judge whether the term ownership refers to productive relations or to property rights relations. If it refers to the former, then the reform of the public ownership system is the key to economic structural reform; if it refers to the latter, then it is not. However, comrades who hold the point of view that the reform of the public ownership system is the key to economic structural reform consider that the term ownership refers to property rights relations. Therefore, I do not agree with this point.

### III. Is the Shareholding System the Best Way To Clearly Define Property Rights Relations?

One view holds that the implementation of the shareholding system is advantageous to the separation between government and enterprise functions, advantageous to the bringing up of entrepreneurs, advantageous to turning the state from shouldering unlimited responsibility to limited responsibility, and so on. Therefore, the shareholding system is the best way to clearly define property rights relations and to reform the state-ownership system.

I know that economic structural reform involves many tasks, and it is closely linked to political structural reform. Therefore, such a complicated problem cannot be solved by simply using the shareholding system alone. I agree that the implementation of the shareholding system is a good method to develop commodity economies. However, it is not the best method. For instance, it is said that the shareholding system is advantageous to the separation between government and party functions. It is only an abstract saying. It is not necessarily the case if it is put in specific terms. It is because, in China, the

separation between government and enterprise functions in the first place is a problem concerning political structural reform. If the political system is not reformed, the implementation of the shareholding system alone is of no help to the separation between government and enterprise functions. On the contrary, since the shares of large-scale state-owned enterprises are mainly under the control of the state, it is a more legal practice to mix government and enterprise functions, rather than to separate them. Therefore, the implementation of the practice of separation between government and enterprise functions must rely on political structural reform; and it must be stipulated by laws that the relationship between the state and state-owned enterprises is the relationship between legal ownership and economic ownership. Only with this practice can government and enterprises functions be separated, and the separation between government and enterprise functions cannot be realized by relying on the shareholding system. For instance, some people said that the shareholding system is advantageous to the growing up of entrepreneurs. However, I think that this also cannot be realized by the implementation of the shareholding system. We should rely on political structural reform to realize this. That means: The current administrative hierarchy system of enterprises (the cadre system of enterprises at bureau level, department level, and section level) should be reformed, the functions of enterprises should be clearly defined (enterprises of a society cannot manage the society), the income of entrepreneurs should be raised, and the status of entrepreneurs in the society should be respected. Only under such circumstances can entrepreneurs grow up.

The more important point is that if we want to promote the shareholding system in large-scale state-owned enterprises, we should first make clear the nature of these enterprises and their position in the national economy. Then we can decide which types of enterprises can adopt the shareholding system and which cannot. We cannot generally say that the shareholding system is the best method to reform the public ownership system and to clearly define property rights relations. It is because the shareholding system adopted by an enterprise is closely related to its management objectives. In general, it is suitable for enterprises which have the management objective of profit maximization to adopt the shareholding system. Enterprises other than these are not suitable to adopt the shareholding system.

At present, the diversification of management objectives of state-owned enterprises in China is a big obstacle to invigorating enterprises. The implementation of the shareholding system cannot solve the problem of diversification of management objectives of enterprises. Diversification of management objectives of enterprises is due to that state-owned enterprises have to satisfy the needs of various aspects. For instance, they have to turn over to the state financial incomes, have to increase profit, accumulate funds, conduct technological innovation, improve the welfare for the staff and workers, solve the

problem of unemployment and expand employment opportunity, serve the masses, pay fees to various aspects in the society, and so on. These are the management objectives of state-owned enterprises, and the shareholding system can fulfill only one of them: profit maximization.

State-owned enterprises in China in general can be divided into the following categories according to their nature and their position in the national economy: 1) Extremely large enterprises that are of vital importance to the nation's economy and people's livelihood, such as railways, post and telecommunications, central bank, and so on. 2) Public utility enterprises, such as urban public transport, water and electricity supply, and so on. 3) Monopolistic enterprises, such as metallurgical enterprises, and so on. 4) Enterprises related to policies, such as policy-permitted investment companies, banks, cultural bookshops, pharmacies, and so on. 5) General operative enterprises, such as light industrial, and textile enterprises, profit-seeking banks, and so on. The five categories of state-owned enterprises mentioned-above are of different nature, and their business targets are different too. It is not suitable for the first category of enterprises to adopt the shareholding system because they are large in scale and are of vital importance to the nation's economy and the people's livelihood. The main business target of the second category of enterprises is to serve the masses; and the state has to subsidize them when they incur losses. Therefore, it is not suitable for them to implement the shareholding system. The third category of enterprises have monopolistic power, and thus can make large amount of profit. In order not to let the profit flow out from the enterprises, it is also not suitable for these enterprises to implement the shareholding system. For the fourth category of enterprises that are related to policies, the shareholding system must not be adopted. Only the fifth category of enterprises can adopt the shareholding system. However, the number of this type of large-scale state-owned enterprises will not be very large. When state-owned enterprises are categorized, and when their management objectives are being clarified, we understand that it is not really possible to implement the shareholding system in the existing large-scale state-owned enterprises, and it may be possible to experimentally implement this system in newly-established large-scale state-owned enterprises. Therefore, we must not exaggerate the role of the shareholding system in deepening enterprise reform. I consider that for whatever category of large-scale enterprises, issuance of bonds is a more effective and practical method to raise funds than the implementation of the shareholding system.

In conclusion, under the conditions of the socialist commodity economy in China, there is objective inevitability for the existence and development of the shareholding system, and there is ample room for the development of this system in non-large-scale state-owned enterprises. However, due to the differences in management objectives among large-scale state-owned

enterprises, it is very unlikely that it will be possible for them to adopt the shareholding system. To implement different forms of the separation between ownership and management power in large-scale state-owned enterprises is, in the present stage, the main method to reform the form of the public ownership system in China. The shareholding system is only one of the methods to reform the ownership system of enterprises, and it should not become a target model. In deepening enterprise reform, we should pay attention to the point that coordinated reforms in the aspects of production, exchange, allocation, and so on should also be conducted; and we should not race after the "shareholding trend."

#### Footnotes

1. HONGQI No 5, 1987
2. "Selected Works of Marx and Engels," Vol 1, p 68
3. See "Collected Works of Marx and Engels", Volume 26 Part III, p 565

#### Scientific Achievements in and Theories of Artificial Intelligence

40050351f Beijing HONGQI [RED FLAG] in Chinese  
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[Article by Zhang Shougang 1728 1343 0474]

[Text] Artificial intelligence, an outstanding achievement of modern science and technology, is a comprehensive discipline of study which first came into being in the middle part of the 20th century. Its birth and development have put before us a range of theoretical and practical problems which require our conscientious deliberation and answer.

#### I

Artificial intelligence is relative to natural intelligence. With appropriate technical means, some of man's intelligent behaviors may be performed by machines, and machines may be used to imitate and substitute man in certain intelligent behaviors. Artificial intelligence is the science of groping for the law governing the simulation of man's feelings and thinking processes and designing automatic machines with functions similar to some of man's intelligent behaviors. In other words, artificial intelligence is a science which studies the laws governing intelligent behaviors and the development of an artificial system with intelligent functions for the partial automation of mental labor.

Artificial intelligence involves the theory of information, the theory of control, computer science, automation technology, electronics, biology, bionics, psychology, mathematical logic, linguistics and philosophy. Over the last 3 decades and more, experts have carried out

research into artificial intelligence from different perspectives and in different ways. By and large, there are the following three major approaches: the biological approach, the psychological approach and the technical-engineering approach. Since the Fifth International Conference on Artificial Intelligence, rapid progress has been made in computer simulated artificial intelligence using the technical-engineering approach and remarkable successes have been achieved. At present, the electronic computer is the principal tool for the simulation of man's intelligent behaviors, and the central task of artificial intelligence is to study how to make the computer perform tasks which hitherto could only be performed by man's intelligence, in other words, how to make the electronic computer cleverer. This is the short-term objective of artificial intelligence. The long-term objective is to explore the basic theories of intelligence and develop intelligent machines of higher caliber.

Man is the most intelligent of all things, and the human brain is the most sophisticated, most complicated and most delicate system of natural intelligence in nature. Why does mankind, which has such well-developed intelligence, want artificial intelligence?

Man transforms the objective world through physical and mental labor (including the limbs, the sense organs and the organs of thought). However, while these organs have many strong points, they also have their limitations. As the activities of production develop in greater breadth and depth, the contradiction between man's physiological organs and the subject of labor sharpens, and it becomes increasingly more necessary to magnify man's physical and mental labor by material means. Hence, all kinds of tools and machines are manufactured and made use of in an effort to extend and expand the functions of the limbs and the sense organs, and tools of labor and tools of observation are produced. As proven by numerous facts, the limitations of man's organs of thought are revealed after tools of labor and tools of observation are made use of to extend and expand man's labor and sense organs in the course of protracted practical activities. The limitations of the brain as the organs of thought are mainly manifested in the following four ways: First, it is slow in processing information. The speed at which information is processed by the brain is conditioned by the transmission of information input and output in the nervous system. In general, man's nervous system can transmit electric impulses at a speed of 120 meters per second; whereas metal wires can conduct electrical signals at a speed of 300,000 kilometers per second, 2.5 million times faster than the speed of nerve transmission. The time lag caused by synaptic delay is in terms of milliseconds, while in semiconductor integrated circuits, the transmission of information in the logical elements only takes nanoseconds to switch on and off. There is a world of difference between the two. After the input of information, the brain can only process scores of bits per second. Second, the physiological limitations to the room of activity and functions of the organs of thoughts render them incapable of directly

manipulating and controlling certain special subjects of labor, subjects of research and dangerous technological processes. Third, the brain has a very limited memory and accuracy is not one of its long suits. Although the brain has an impressive number of cells, it cannot store too much information within a given length of time. The computer's magnetic drum can safely store hundreds of thousands of instructions, but it is very difficult to store over 10,000 instructions at the same time. Fourth, in its actual functioning, the dependability of the brain is bound to be affected by one's own physiological conditions and mental state and by the external environments. The above limitations make it impossible for the brain to promptly and effectively perform its control functions. Hence the urgent need to resort to tools of thought—artificial intelligence—to extend and expand the functions of the brain.

On the other hand, artificial intelligence is also needed when man's activities to know and transform the world touches on the highly complicated objectivity, such as cosmic exploration and the exploitation of the ocean and atomic energy, and when people need to make effective use of rapidly growing scientific knowledge in their endeavor to modernize the management of enterprises. Thus, artificial intelligence is the inevitable product of man's efforts to transform the world by means of the tools of production.

Machines widely used since the first industrial revolution represent a material and energy system made up of power machines, transmission devices and working units without information processing ability, while the artificial intelligence system which represents an important hallmark of the new technical revolution is an information and control system with information processing ability. In other words, all artificial intelligence systems can make use of information feedback to perform automatic control in order to simulate and replace certain intelligent behaviors. Hence, the control theory and the information theory which reveals the theories of information conversion and feedback control respectively have become two major scientific theories of artificial intelligence.

The electronic computer is the principal tool for achieving artificial intelligence. The computer is an "electronic brain" made up of five major components—the input device, the storage unit, the arithmetic logic unit (ALU), the control unit and the output device—which can simulate the acquisition, transmission, storage and information processing functions of the brain. Specifically speaking, 1) the input device of the computer is for transmitting man's intention to the man-machine communication unit. In other words, it is used for turning data and programs into electric impulses and feeding them into the computer. 2) The storage unit is for storing data and programs. The basic function of the storage device is to store or read codes in the form of bits. The storage device is also called the memory of the computer because it is used to simulate the memory function of the

human brain. 3) The ALU is the device for directly completing various arithmetic and logical operations. The ALU simulates the computation, judgment and selection functions of the brain. 4) The control unit is the nerve center of the computer, the command system of the whole machine. It works by sending control signals to command the machine to work in a coordinated way. The computer makes use of the control unit to simulate the analytic and synthesizing functions of the brain as well as its function in controlling different organs. 5) The output device can turn the results of computer computation from electric impulses into a form discernible by the user. It is used to simulate the result of thinking by the brain as well as the way in which the brain reacts to external circumstances.

Objective things are multifarious and external circumstances are ever-changing. These have to be processed before they are inputted into the electronic computer because the latter cannot directly process information the way the brain does. The processing involves three steps. First, the actual problem is described formalistically and a corresponding mathematical model and formal system are established. This step includes the establishment of a status-space model for the description and processing of things in the natural world, and the formalistic description of man's thinking by means of mathematical logic. Then, the way in which the problem is resolved is mechanized. This means that on the basis of giving formal expression to thinking, certain thinkiarrying out logical calculation automatically by means of Boolean algebra and basic logic circuit.

## II

If we look at the development of artificial intelligence as a whole, we may notice that it moves in the following general direction: From the ng processes are converted into specific algorithms or heuristics rule so that the computer may execute the orders. Finally, the process of resolving the problem is automated. This is the process of intelligence simulation, with the electronic computer csimulation of some of man's intelligent behaviors by means of the computer to the development of intelligent robots, followed by the emergence of machine expert systems.

Since the latter half of the 1950's, experts in the field of artificial intelligence have been making use of the electronic computer to simulate man's intelligent behaviors, that is, using the electronic computer to play games, prove theorems, resolve problems, recognize patterns, comprehend natural languages, study automatic computer programming and rediscover scientific laws. Gratifying progress has been achieved. The development of the machine theorem-prover was one of the major areas research in artificial intelligence study in the early days. Proving theorems, which is a process of logical deduction, is a unique intelligent behavior of mankind. Machine theorem-provers give form to this process by means of symbols, turning it into a process of symbolic



calculation which can be performed automatically by the computer. The process of inference and deduction is thus mechanized and automated. The concept of using machines to prove mathematical theorems was first put forward by G.W. Leibniz, and the mathematical logic established by D. Hilbert in the 1920's provided the relevant theory and method. In 1956, the psychologists Newell, Xiao-wu [5135 3527] and Simone discovered in their study of the psychological process involved in one's attempt to prove a theorem the following common law: One would first break down the problem to be resolved into subproblems and then solve them by means of substitution on the basis of axioms remembered or proven theorems. On this basis, they established the method of heuristic search for the proof of mathematical theorems by means of machines, and wrote a program entitled "The Logic Theorist" to prove many of the theorems in Chapter 2 of "The Principles of Mathematics" by B. Russell and A.L. Whitehead using the computer. Their efforts were highly praised as an important achievement in the simulation of man's intelligent behaviors by means of the computer.

Mechanical pattern recognition is an important area of study in artificial intelligence. It includes not only visual pattern recognition but also the recognition of voice and other patterns. The early "modular world" of pattern recognition has been developed to recognize outdoor scenery and moving objects. There are three major methods of mechanical pattern recognition, namely, the statistical method, the linguistic method and the artificial intelligence method. The statistical method extracts the distinctive features of the object, that is, finds out the vector that can reflect the characteristics of the pattern, and then compare and match them with the relevant models in the storage system of the machine, and if they match, the pattern will be recognized clearly and accurately. The linguistic method, which is based on the intrinsic links between vision and language in the process of cognition, recognizes patterns from the links with the verbal description of the structure of the object in the storage system of the machine. The method of artificial intelligence lets the machine judge and recognize the object from a few characteristic features on the basis of general knowledge stored in its system. At present, mechanical recognition is used in machine reading, machine graphic reading, machine check and machine recognition of objects.

Since the 1960's, computer-operated robots have come into being. Robots are multifunction operators that can be reprogrammed. In other words, they are automatic machines that can simulate some of man's functions. There are all kinds of robots. In terms of their functions, there are three types of robots: 1) industrial robots; 2) remote-control robots; and 3) intelligent robots. These robots which emulate the functions of man come in all kinds of shapes and sizes. Industrial robots are automated devices capable of working on their own. They can be reprogrammed and can repeat whatever they are doing according to certain programs. These "iron-collar

workers" are now widely used in the automation of discrete production processes. Intelligent robots are robots with feelings; they can recognize things and perform certain decisionmaking functions. These "wise and capable" machines with "the five senses" can simulate the functions of man's brain, eyes, ears, mouth, hands and legs. The brain of the intelligent robot is the central electronic computer. The video recorder and foreground processing computer are its eyes; the micro-earphone and foreground processing computer are its ears; the loudspeaker and sound synthesizing computer are its mouth; and multi-joint and highly flexible mechanical arms and control computers are its hands. Intelligent robots, which simulate and extend man's organs in every way, have for the first time combined the tools of labor, observation and thinking. They represent a major breakthrough in the history of the development of labor. According to 1981 statistics, the total number of robots was registered at 125,000. Japan has the greatest number of robots, followed by the United States, the home of robots, and the Federal Republic of Germany. While robots owned by the Federal Republic of Germany, Great Britain and France lag behind those of Japan and the United States in number, they excel in quality. There are now "no-man factories" in some countries. These are automated systems made up of computers, robots and digital-controlled lathes. The Fuji Factory built by the Japanese under Mount Fuji is one of these "no-man factories." Most of the "workers" here are robots, and some robots even take part in management. Japan's Yamasaki Machine Tool Factory only has a watchman working the night shift—the rest are all robots. It is said that by the end of this century, whoever refuses to use the robots will lose in the international competition. American and Japanese scientists believe that the emergence of the robot has put an end to the man-machine era opened up by the first industrial revolution and ushered in the man-robot-machine era. Man becomes more and more removed from the subject of labor, but is in greater control of the outside world.

Since the 1970's, the study of artificial intelligence has entered a new stage. The theories and technologies of artificial intelligence are being used to develop machine expert systems (or simply called expert systems) that have certain specialized knowledge and are capable of resolving certain specific problems. An expert system is a computer (program) system with a knowledge bank that can work out solutions to complicated practical problems in given areas just like experts or specialist groups. It can sum up the relevant experience and knowledge of the experts, differentiate the facts from the rules, store them into its computer in appropriate forms and thus build up its own knowledge bank. Based on the data in its knowledge bank, it can make use of an appropriate generation system to choose a suitable rule from the raw data, make inference, draw deductions, form its own judgment and then make the necessary decision. In this way, it performs the functions of the



relevant experts. At present, expert systems are successfully put into application in scientific experiments, medical diagnosis, geological prospecting, teaching and legal counseling as well as in the military field. The first expert system is the DENDRAL system developed by Stanford University in 1965. Making use of the nuclear magnetic resonance spectrometer and other determination data for chemical experiments, it can accurately forecast the molecular structure of unknown compounds. In 1977, Stanford developed a medical expert system. The main function of this system is to determine how to make use of antibiotics to treat blood bacterial infections when the primary pathogen is unknown. It can communicate with people in English as well as absorb new knowledge. The Americans are also using the PROSPECTOR system to provide counseling for geologists engaged in mineral prospecting. Besides giving assessment on mining data and on reserve, it can also select the optimum drilling point. At present, expert systems developed by Chinese artificial intelligence scientists are also put into application in medical diagnosis, geological prospecting and other areas.

The advance from robots to machine expert systems represents yet another leap in the development of artificial intelligence, a major innovation in the development of tools. The emergence of the expert system marks the combination of the evolution of machines and the evolution of knowledge. In the past, machines were the material form of man's scientific knowledge, but they could not store and process knowledge. Machine expert systems, however, have this ability. They represent man's exploitation of spiritual resources on the basis of the exploitation of material resources. In other words, man's existing knowledge is appropriately processed and made use of as tools of knowledge. Previously, tools were basically hard tools for use in the process of material production. Their basic function was to increase the productivity of material products. Machine expert systems are soft tools. Their basic function is to serve spiritual production and raise the productivity of spiritual products. Feigenbaum, the well-known American artificial intelligence expert, first put forward the concept of "knowledge engineering" at the Fifth International Conference on Artificial Intelligence in 1977 on the basis of the trends of development in artificial intelligence. Knowledge engineering is a technology which deals with the basic problem in the development of expert systems, that is, information processing, such as knowledge acquisition, expression, utilization and interface. In short, knowledge engineering is studies and exploits knowledge systems. Its emergence has given great impetus to the integration of knowledge with engineering and technology.

The development of artificial intelligence, particularly the study of knowledge engineering, has accumulated a good deal of theories, methods and means in respect of knowledge and information processing and laid a solid foundation for the development of fifth-generation computers. In October 1981, Japan announced to the world

an ambitious program for the development of fifth-generation computers. The United States, Britain and the EEC promptly took countermeasures against the challenge from Japan. Experts believe that whoever wins this contest will hold the sway in the world in the 21st century. Fifth-generation computers will be intelligent machines capable of processing knowledge and information. They will be able to carry out man-machine communication directly from spoken or written language or graphics and have a large data bank. And they will be able to perform such functions as recognition, comprehension, solving problems, learning and drawing inference.

By means of modernized material means, artificial intelligence has enhanced man's cognitive ability like never before and has brought about tremendous changes in the form, speed, accuracy and scope of man's efforts to know the material world. With the help of the computer, man is able to achieve automation, high speed, large volume and accuracy in information processing. This has enabled mankind to make major breakthroughs in knowledge both in breadth and in depth. We may say that artificial intelligence has opened up the road for intellectual emancipation. In some of the developed industrial countries, the application of artificial intelligence has given a great impetus to the automation of social production and the modernization and scientific improvement of enterprise management and livelihood services, thereby bringing about miraculous changes to the outlook of social production and livelihood.

### III

Since the birth of artificial intelligence, experts have been debating on many of the theoretical issues involved. The most controversial issue is the relationship between the human brain, the robot and man. The kernel of the polemic is whether or not machines can think and whether or not there is a limit to the simulation of thinking. Although many arguments have been voiced in the course of this polemic, they basically fall into one of the following three categories: The first view holds that machines cannot think, but the computer can partially simulate the thinking function of the brain. The second view holds that machines can think and that the computer is fully capable of simulating and replacing the thinking function of the brain. The third view holds that machines not only can think, but that robots operated by computers will one day surpass and even enslave man.

My view is that in the final analysis, the computer and the brain, robots and man are related to as well as being different from each other. Intelligence simulation is possible, but it also has its limitations. We cannot deny that there are intrinsic links between the computer and the brain. To begin with, both are intelligence systems. The brain is a natural intelligence system made up of 15 billion neurons, while the computer is an artificial intelligence system made up of tens of thousands or even tens of millions of electronic elements. In terms of their

governing laws, they both follow common information conversion and feedback control theories. In terms of their functions, they both have information storage and processing capabilities. It is precisely because of these common features between the brain and the computer that it is possible to make use of computers to simulate the functions of the brain.

While the use of computers to simulate the functions of the brain has many advantages, it also has a whole range of basic limitations. The advantages of the computer are obvious. First, it has great operating speed. It can carry out mathematical and logical computation much faster than the human brain, at a speed of millions, tens of millions, even hundreds of millions and over 1 billion calculations per second. Second, it can perform its function with great precision, rarely making any errors in millions of calculations. Third, it has a large storage capacity. Existing computers have rapid and reliable memory and can store the information of an entire library. Fourth, it can work continuously round the clock under difficult circumstances. It is precisely because the computer has so many advantages that it can develop so rapidly.

The limitations to the simulation of thinking are determined by two basic premises. First, the fundamental aim of thought simulation is not to duplicate the brain but to enlarge and supplement certain functions of the brain with materialized intelligence. Second, the fundamental method of thought simulation is functional simulation, which means that the simulation and simulated systems can be totally different in terms of structure, mechanisms and actual working process and it is not necessary for the two to be identical. In other words, the simulation of the brain by the computer is a functional simulation. This kind of simulation only seeks to simulate that part of the brain's thinking function that can be given form to, and it can only simulate the high form of physiological and psychological movement of the brain by means of the low form of mechanical and physical movement of the computer. It can thus be seen that the advantages of thought simulation have their own limitations. We may even say that some of its advantages are exchanged at the cost of these limitations.

While it is true that thought simulation has indeed made use of the common features between the brain and the computer, or between man and machine, there are essential differences that cannot be overlooked. Man's thinking has three fundamental characteristics, namely, the social nature of thinking, subjective initiative and the subjective world with self-awareness at its core. These three essential attributes of the brain can never be simulated or replaced even by the most advanced computers.

1. The computer does not have the social attribute of man's thinking. Thinking is born at the crossover point between the biological form of movement and the social form of movement. Some of its natural attributes can be

simulated, but its social attributes cannot. In other words, even if intelligent machines which are structurally the same as the brain are produced in the future, they cannot think in the true sense of the word because they cannot experience the protracted process of the evolution of mankind and cannot take part in man's practice.

2. The computer does not have the subjective initiative of the brain. Under the command of the brain, man has the subjective initiative to know and change the world. This is what distinguishes man from animals. Without a preset program, the computer and the robot cannot ask any question, sum up new laws, and make scientific forecasts on its own, to say nothing about changing the objective world with a purpose.

3. The computer does not have a subjective world with self-awareness at its core. Man's thinking has its social nature and subjective initiative because it has formed a subjective world of its own on the basis of its social practice. This includes the world outlook, feelings, aspirations, interests and preferences, and can carry out introspection. It is precisely the peculiar subjectivity of the individual that determines man's peculiar way of reflecting objective things. However advanced, a computer does not have its own subjective world and cannot simulate the rich and complicated spiritual phenomena of the brain.

While maintaining that there are essential differences between the brain and the computer, we are not in favor of artificially and mechanically drawing a specific line of demarcation between the role and capability of intelligence simulation. The reason is that intelligence simulation is based on the premise of the understanding of the laws of thinking and the functions of the brain and is achieved using the technology of thought simulation as its means. As man's self-understanding and the relevant science and technology develop, the specific limitations of the ability of intelligence simulation will undergo changes. Seen from the present trends of development, the relationship between the computer and the brain is a reducing gap. In other words, the computer which simulates thinking will constantly move in the direction of the brain which can really think. But as I see it, the gap between them will always be there.

To sum up, the relationship between the computer and the brain, or between machine and man, is neither a relationship where one can replace the other nor a relationship where one excludes the other. Computers and robots are but effective technical means in the service of man. Although they may in part or in specific functions excel the physiological threshold value of the brain, taken as a whole, they cannot compare with man, to say nothing about replacing man or enslaving man. In order to liberate people from tedious mental labor and from dangerous and arduous physical labor, so that they can do more creative work, we should energetically develop and make extensive use of this powerful weapon of artificial intelligence.

## **Divergent Thinking, Convergent Thinking, and Creative Activities**

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[Article by Zhang Zhiguang 4545 1807 0342]

[Text]

### **I. A Mystery Which Has Not Been Completely Explained**

Mankind through its activities continually changes the natural world, and promotes the development of society and itself. None of these activities can be separated from thought. It is because man has thought that he is able to more deeply reflect the essence and internal relationships of things, continually discover the objectively-existing laws, and more consciously carry out creative activities.

Creation differs from imitation and is also different from copying or reproducing habitual experiences, knowledge and abilities. It is a process by which an individual, on the basis of the requirements of life, processes and rearranges existing experiences, knowledge and abilities and thereby discovers new concepts which have not existed previously in human society or in that person's brain, and subsequently, through external activities, changes these into new things with practical significance. What sort of thought activity is this special process of the brain? This is a difficult question which thinkers and psychologists have long tried to explain but which they have never been able to completely answer.

### **II. Psychological Exploration and Research**

Since early in the century, there has been much psychological research into the matter of creativity.

In 1926, the English psychologist Wallas, in his work "The Art of Thought," proposed that the creative process had four overlapping stages: preparation, incubation, illumination and verification. Later, many psychologists collected great amounts of data about inventors and scientists and showed that in many cases these four stages existed. If one is to carry out creative work, it is first necessary to have full stores of materials, experience and knowledge. One must then put all one's efforts into thinking about some problem, considering it over and over and reconsidering it so as to find a method of solving the problem. Sometimes after a break or a rest, a new idea or "inspiration" will suddenly appear. Then, through inference and practice this can be revised and verified. Creation is not a chance phenomenon. Rather, it is a process of thought which involves arduous preparation, great efforts in exploration and the intermittent occurrence of "sudden light." From incubation to illumination is clearly the key stage in the appearance of new concepts. However, by what sort of thought this is realized is a question left to us by Wallas.

In 1945, the German psychologist Wertheimer published his book "Creative Thinking." Through an analysis of education, daily life as well as the examples of the discoveries by Gauss, Galileo and Einstein, he held that both discovery and creative work rely on creative thought. Although this thought cannot be divorced from the operations and associations of traditional logic, its process is very different from logical thought and recall. Wertheimer felt that the major function of creative thought lies in "seeking the reality of the structure" and in discovering "the internal relationships of the structure" between things. In order to achieve this result, "it is first necessary to see and to discover the problems" and to "master the specific structural characteristics of the situation." Then, in accordance with the demands of the problem, the various operations such as "breaking apart, reorganizing, finding the center and changing positions in the structure" should be carried out. In this process, "we must not be fettered by old customs" and "must not, like slaves, just repeat that which has been studied." Rather, we "must freely and without preconceived ideas observe the whole situation," discover the various types of relationships and put forward various types of hypotheses. Then, through testing these and discarding those hypotheses which do not accord with the structural essence, we will achieve "enlightenment" and understanding of the internal structure.

Later, the American psychologist Guilford in two articles, "The Three Dimensions of Intellect" (1959) and "The Nature of Human Intelligence" (1967), proposed a new blueprint for a structural model of intelligence. He held that intelligence is a composite of many special abilities. These abilities can form a cubic model comprising the four kinds of materials (figural, symbolic, semantic and behavioral), the five types of operations in psychological activities (cognition, memory, divergent thinking, convergent thinking and evaluation) and the six types of products (units, classes, relations, systems, changes and implications), giving a total of 120 ( $= 4 \times 5 \times 6$ ) types. In this, his division of thought into divergent thinking and convergent thinking had great innovational significance for those who later further studied creativity.

What are divergent thinking and convergent thinking? Thinking, as a special function of man's brain to succinctly and indirectly reflect the attributes and internal relationships of things, can classify things from different angles. For example, on the basis of the directional contents nature of thought, it can be divided into empirical thought and theoretical thought; on the basis of the level of the individual development stage, it can be divided into active thought, thought in images, formal logical thought and dialectical thought; on the basis of the degree of people's awareness in respect of the process by which the results of thought are produced, thought can be divided into intuitive thought and analytical thought; on the basis of the creativity of the results of thought, it can be divided into conventional thought and

creative thought; and so on. The classifications of divergent thought and convergent thought were put forward by Guilford on the basis of the orientation characteristic of the thought process. Guilford felt that when people are solving problems, in thought there are often "produced from the same source many types of diverse outputs." That is, in a period of time, the thought is not restricted to one pattern and, through various orientations, it seeks various different methods, avenues and answers. This type of thought model which assumes a scattered or branching form is called "divergent thinking." As this is subject to relatively little restriction by traditional concepts, does not easily subscribe to ready-made arguments and is not anxious to seek unity, it thereby often produces strange and different ideas. Thus, it is called "difference-seeking thinking" or "open thinking." In the same situation, thought often "produces logical conclusions from the information provided." That is, using the existing facts or propositions as a starting point, it follows the logic of traditional thought, carries out inference along a converging or unitary orientation and finds a suitable answer. This centralized or straight line thought model is called "convergent thinking." As this, under known preconditions, draws from some facts "the only or conventional best result which is acceptable," it is called "unity-seeking thought" or "closed thought."

Indeed, in many situations these two models are manifested in people's thought. For example, some people pose the riddle: "In the morning it walks on four legs, at noon it walks on two legs and in the evening it walks on three legs. What is it?" Many people will think as follows: Perhaps it is an animal. Is it a frog? A rat? A pangolin?... Perhaps it is a utensil. Is it a damaged chair? Is it a bicycle with an added wheel or with a prop-stand? Is it a racing car turning a corner and losing a wheel?... Perhaps it refers to a person. Is it a skier? A person in a cartoon? A person growing up?... It could also be a robot, a machine which can walk, a deep-sea probe, a space station..., and so on. This multidirectional exploration thought mode without any fixed conclusion is divergent (difference-seeking) thinking. Of course, if a person has received training in logic, he may think like this: It is known that this is a thing which can change. The conditions are changes over time and the changes in the number of supports from four to two to three. Is it a frog? In general a frog cannot have three legs and thus this is not a frog. Is it a person? When a person is young, he crawls on all fours. After growing up, he walks on two legs, while in his later years he often uses a walking stick. Yes, it refers to man. This type of thought which pushes forward toward a unitary conclusion and which accords with the demands of the proposition, is convergent (or unity-seeking) thinking.

In research, scientists not only use strict convergent logical thinking, but also widely develop divergent thought. When the famous physicist Einstein first felt puzzled by and took an interest in the motion of matter and the question of the relationship between time and space, he had the idea: "If a person pursued a beam of

light, what would happen? If he rode a rope of light, what would happen? If the light went forward and the person pursued it, would the speed of light thus drop? If the person pursued it very quickly, could it be that the light would not move?..." This is a type of imaginative divergent thinking. Subsequently, on the basis of the incongruity between the results of the Michelson-Morley experiment and the classical concepts of physics, and using the Lawrence [Luo-lun-ci]-Fitzgerald theory of contraction as a starting point, he cast aside the truths of mechanics as found in traditional physics and engaged in brave and many-sided thought. He grasped the key points and proceeded deeper and finally bravely put forward the narrow theory of relativity and broke down the old concepts of time and space.

Guilford and many psychologists who succeeded him, such as Torrance and Getzels held that divergent thought can almost be equated with creative thought, and that the latent ability manifested by it is creativity. Thus, they considered the three characteristics of fluency (the speed and volume of reaction), flexibility (the diversity of types of reaction) and independence (the rate of emergence of new concepts) of divergent thinking to be its norms, and thereby worked out all sorts of "creative thinking tests." These tests were different from the usual tests of intellect where points are tallied on the basis of whether answers are right or wrong. Rather they used the three above-mentioned characteristics as the standards and points were allocated in accordance with the number, types and rate of original answers. In this way, the level of creativity was determined. For example, in Guilford's "unusual uses tests" there was a test in which the subject had to list, within 8 minutes, all the uses of a "red brick." Some subjects only listed 5 or 6 uses, while others noted over 30 uses. The latter were scored higher in their fluency of thought. Some of the subjects could only list "building material" functions such as "building a house, building a school, laying pavements, building walls" and so on. Others listed a multitude of uses such as "pressing paper, supporting bookshelves, driving nails, chocking a car's wheels, making red powder, as a weapon" and so on. The latter were scored higher in their flexibility of thought. The likelihood of people suggesting "making red powder" and "as a weapon" is not high and thus they were scored highly in terms of originality. What the tests showed was the creative level of the people being tested.

With a tool for measuring creativity, researchers could carry out a series of interrelationship research projects (such as research into the relationship between creativity and intellect and between creativity and the characteristics of a person's temperament) and experimental research (such as free association exercises and experiments on the role of praise and other educational conditions in promoting the development of creativity). At present, research in this area is developing in both breadth and depth.

### III. Divergence and Controversy

Does creative thinking only need divergent (difference seeking) thought and not require convergent (unity-seeking) thought? That is to say, can just the manifestations of the fluency, flexibility and originality of divergent thinking represent a person's creative level? People have raised objections to Guilford's ideas on creativity and the "creativity tests" which are based on those ideas and which have been widely used.

Many psychologists such as Solley, Telford [Tui-er-fu-de] and Arieti hold that creative thinking should not be simply equated with divergent thinking and believe that divergent thinking and convergent thinking are two thought modes difficult to separate in the creative process. They feel that even in ordinary thought, the two are often interlocked and interlinked. For example, when faced with a fill-in-the-blank question which requires the most correct answer, various associations will be produced in the mind. This is divergent thinking. After reading the instructions, one understands the nature and form of the question and that which needs to be filled in. This is convergent thinking. Then we think about several possible answers. This is again divergent thinking. Then we examine these one by one, reject those ideas which do not accord with the needs and select the most appropriate answer. This of course is convergent thinking. In creativity tests such as the "what uses does a brick have" test, it does not require any single answer and thus it can stimulate the divergent thinking of the subject. However, in actual life, when people think about the uses of a particular thing, they want to use that thing to solve a problem. Thus, there is a standard of suitability, and it is on this basis that the various uses and applicability of things around him are assessed. This involves both divergent and convergent thought, and there is no reason why one should begin or end just with divergent thought. No creation or invention can be completely divorced from an individual's liking or social suitability. Thus, there is always, in a situation of divergent thinking, convergent thinking through selection. Artistic creation is perhaps the activity of greatest freedom and greatest self-expression, and the social standards are generally ignored by artists. However, whether it is a painter choosing the final composition from the innumerable colors, forms and figures available, or a dramatic performer selecting, from many ideas, a mode of performance which suits the character, these are both the result of the individual engaging in divergent thought and convergent thought on the basis of various feelings, concepts and values. In scientific discovery, in order to find answers to problems, scientists not only advance all sorts of theoretical hypotheses and conjectures, but also, through examination of and experiments on the thing in question, more stringently make inferences and offer verifications. Thus, they find common points in things which previously were considered different or unrelated (such as Newton discovering the commonality of "gravity" in the apple falling to the ground and the moon circling around the earth; and Mendeleyev noticing the

common traits of some groups of elements and thus discovering the periodic nature of elements). The recognition of commonalities allows us to form concepts at new levels in various fields of knowledge, and through continued exploration we are led to new discoveries about the nature of other things at this level. There is no doubt that the affirmation of commonalities requires convergent thinking. Ignoring the role of convergent thinking in the process of creation, or holding that creative thinking is divergent thinking is a quite biased viewpoint.

The fact that people do not agree with the drawing of an equals sign between divergent thinking and creative thinking does not mean that they are denying the special position and role of divergent thinking in creative activities. The major function of divergent thinking is that it allows man's understanding to not get stuck in set patterns, and ensures that it dares to seek differences. When man thinks, it allows him to think about ideas from many angles, to not be content with single answers and to continually seek new things. If thought lacks a divergent nature, it will be unable to provide the new thread of the diverse ideas and choices necessary for resolving the problems. Thereby the possibility of innovation will be reduced. Thus, whether or not a person can engage in divergent thinking and can break through the external fetters and internal situations which obstruct divergent thinking, clearly is an important link in whether or not creativity can be brought into play and demonstrated. Of course, if a person only relies on divergent thinking and is not good at convergent thinking, it may result in the person just engaging in wild fantasies and being unable to accomplish anything. This is because the main functions of convergent thinking are respecting the preexisting truths, seeking truth from facts, being rigorous and careful, consolidating at every step and stressing testing and verification. If thought lacks a convergent nature, it will not be possible to determine the nature of the questions, and one may even be precluded from discovering the major questions. Neither will it be possible to follow a unified principle or standard in carrying out investigation which links what has gone before with what is to come. Even less will it be possible, through synthesis, induction and verification, to find the most logical or best answer for resolving a problem. Thus it often occurs that activities of innovation cannot begin or end up in failure. Divergent thinking and convergent thinking are two forms or models of thinking which in creative activities repeatedly interweave and complement each other, with each having its own functions and neither of which can be done without. If one is to create, one needs to use them simultaneously or one after the other. If one is to foster creative abilities, it is also necessary to engage in training or practice from these two angles.

As to creativity, it is not simply a question of abilities formed by divergent thinking or by adding convergent thinking. The elements of creativity include all sorts of abilities of understanding and even personality factors.

These abilities of understanding include: sensitivity to the question, imagination, the ability to think in metaphors; the ability to discover missing information; appraisal abilities; ability to analyze details; the ability to synthesize information; abilities of perception; memory; a good ability to define problems; an ability to predict results; and so on. From this we can see that creativity is the manifestation of overall mental abilities.

Although creativity includes or involves many factors and although the creative process is quite complex, many people at present believe that its central core or key link is still creative thinking which includes the unified opposites of divergent thinking and convergent thinking. Thus, further making clear, through discussion and research, the nature of divergent thinking and convergent thinking as well as their positions and roles in the creative process and their relationships with other psychological factors and social conditions is very necessary for deepening our understanding and for bringing into play people's latent creative abilities.

#### IV. Two Biases Worthy of Attention

Because of the tides of innovation on a global scale and the situation of reform at present in our country, the question of how to bring into play and foster people's creativity has attracted the attention of many people in our country. This not only involves experiments and exploration by psychologists, educationalists and teachers, but also thought and discussion by theory workers and those involved in social activities. It should be said that this is a very normal and encouraging phenomenon.

However, we have also heard some ideas on this question which appear correct but which are not. For example, there was a short article entitled "On So-called 'Difference-Seeking Thought'" (below referred to as the "short article") which criticized people who one-sidedly stressed the importance of difference-seeking thought and overlooked the role of unity-seeking thought. The "short article" noted that some people say: "The thought model for Chinese people over several thousand years has always been 'unity-seeking' and this is the reason China has not progressed for a long time. If China wants to modernize, the thought model should be changed to 'difference-seeking thought.' When everybody 'seeks differences' China will progress.... 'Seeking difference' is good and 'seeking unity' is not good." The "short article" says: This has been "picked up from America." Guilford "believes that people's thought has one aspect which identifies with other people and one aspect which discovers new things and seeks differences, and holds that both aspects are useful. His analysis is quite naive." And, in respect of the above: "That misrepresentation is erroneous in a basic precondition, that is, that if ideology is consistent, there can be no thought and no ideology." "This understanding is a misinterpretation of what we call unified ideology" and "goes against reason." It is in fact "'unifying' itself with the 'Voice of America.'"

The "short article" does not point out the source of this "absurd" viewpoint. If someone actually did say what the article claims, then they were mistaken not only in absolutely dividing difference-seeking thought and unity-seeking thought, but also in assigning the cause of human social progress to human thought, and thus sinking into the trap of historical idealism. In his article "The Role of Labor in the Process of Transition From Ape to Man" Engels said: "Swiftly progressing civilizations are all attributed to the brain, attributed to the development and the activity of the brain. People became accustomed to explaining their actions through their thought rather than through their needs. (Of course these needs were reflected in the brain and were consciously recognized.) In this way, following the progress of time, an idealist world view was produced and this world view has, especially since the collapse of the ancient world, ruled people's minds. Today, it very powerfully rules people's minds and even the natural scientists of the Darwinian school with the greatest materialist spirit have not got clear how mankind came into being. This is because under the influence of idealism, they do not recognize the role which labor played in this." If we were to change "the natural scientists of the Darwinian school" into "various modern thought scientists," change "how mankind came into being" into "social development" and change "labor" into "practice," would this not also be very appropriate criticism?

However, the "short article's" understanding of Guilford's two concepts of "difference-seeking thinking" (that is, divergent thinking) and "unity-seeking thinking" (that is, convergent thinking) is not accurate. "Seeking unity" is not restricted to "identifying with other people." It also includes a person choosing from many of his own different ideas, a correct answer, or from an understanding of a multitude of complex phenomena, finding a point of commonality. "Seeking difference" is not restricted to maintaining differences with other people. It refers to not readily accepting one's own traditions and old concepts and instead putting forward diverse new ideas, so as to provide choices. When a person endorses or accepts another person's new idea, it appears that they are identifying with them. Perhaps however they are actually negating many of their own existing concepts and seeking differences. In the same way, when a person opposes or rejects another person's ideas, it seems as if they are maintaining differences. However, they are always searching the many experiences in their own memory banks for reasons to support their own ideas. This is convergent thinking, seeking unity with oneself. Thus, "seeking unity" or "seeking difference" with other people cannot be simply equated with a person's unity-seeking thinking or difference-seeking thinking. The two are different concepts. Of course, these two thought modes are closely related and indispensable whether we are speaking about the activities of day-to-day resolution of problems or in creative activities. If that which the "short article" referred to had been these two thought modes as strictly defined, his

view which stressed the unity of the two and that neither could be stressed at the expense of the other would undoubtedly be correct.

However, these two types of thinking are often unbalanced in people's development. For those people who engage in wild fantasies and rarely achieve real results, it is necessary to strengthen their training in logical unity-seeking thinking. As to those people who are used to strict logical reasoning and are not good at putting forward new ideas through divergent thinking, it is necessary to stress the importance of and strengthen training in difference-seeking thinking. This is especially so in a time of reform. When many people are used to traditional concepts and practices and cannot break through the old conventions and put forward new ideas and new methods which accord with the new situation and new demands of life, it is quite sensible to require and encourage people, on the basis of respecting truth, to be brave in developing difference-seeking thinking or, in educational reform, to make training in divergent thinking an important, integral part of education. It is well known that in capitalist society, if Marx and Engels had not broken the fetters of traditional concepts and had not, on the basis of rigorous thought, been brave in seeking differences, there would not have been the birth of scientific, revolutionary Marxism, an event of epoch-making significance. In old China, if Comrade Mao Zedong and his fellow fighters had not in practice been able to eliminate the obstructions of dogmatism, and had not been brave in putting forward, in accordance with China's characteristics, the new ideas of surrounding the cities from the countryside, the united front and armed struggle, there would have been no Mao Zedong Thought which had the power to mobilize the people, and the people of our country would not have achieved victory in the new democratic revolution. If after the "Cultural Revolution" the central leaders of our party had continued to follow the old model of socialist construction, and had not been able, at the same time as adhering to the four cardinal principles, to firmly put forward a series of new principles and policies of reform and opening up, it would not have been possible in national construction to realize the great achievements we have today, achievements which have amazed people in China and abroad. All innovative activities not only need to observe and flexibly utilize the laws which have already been revealed, but more importantly need to discover new laws. People want to accord with truth through unity-seeking thinking, but if they overlook the role of difference-seeking thought and dare not put forward new ideas, then it will be difficult to push relative truth forward. Thus, excessively belittling the position of difference-seeking thinking, or even not tolerating people putting forward or inquiring into difference-seeking thinking will have the same effect as denying the role of unity-seeking thinking, and will not be beneficial to the cause of reform or activities of innovation.

It was appropriate for the author of the "short article" to criticize the trend to excessively stress difference-seeking thinking and to negate unity-seeking thinking. However,

because of the inappropriate use of words, it gave people some wrong impressions, such as that all people who stress the importance of "difference-seeking thinking" are just following foreigners' ideas, "'unifying' with the 'Voice of America,'" that they all oppose our party and propose things which "go against reason." In this way, people will think that we only stress "unity-seeking" and do not allow "difference-seeking" and this will result in some teachers who are enthusiastically reforming education and giving training in divergent thinking and some specialist workers who are engaged in creative thought research, feeling confused and hesitant.

Practice and life demand that people go deep into ascertaining the relationship between difference-seeking thinking and unity-seeking thinking in creative activities. Healthy debate will be of assistance in clarifying this question. However, the true resolution of the question must await the major development of experimental research and the encouragement of researchers to bring into play the roles of difference-seeking thinking and unity-seeking thinking, and have them subject to examination through practice.

#### **24th Lecture of Forum on Socialist Commodity Economy: Land Rent in the Socialist Commodity Economy**

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[Article by Huang Xiaohu 7806 1420 5706]

[Text]

#### **I. Differential Rent and Absolute Rent Under the Socialist Conditions**

Land rent is the revenue obtained by a land owner from his ownership of a plot of land. In feudal society, a landlord owned, by exercising his right of ownership, all surplus labor or surplus products of peasants, or even part of their necessary labor or necessary products. In capitalist society, even capitalists have to pay rent to owners of land which they use. This shows the relations of sharing surplus value created by workers between land owners and capitalists.

Though the private ownership of land was abolished in China's socialist society, there is still the ownership of land by the state and collectives. Land resources are so limited that neither the state nor collectives allow enterprises, units and individuals to arbitrarily occupy land. In other words, there are still restrictions on land use imposed through the ownership of land. The realm of land rent still plays a significant role in our economic activities.

Take the use of collective-owned rural land by peasants for agricultural production as an example. Differences in terms of abundance (including fertility, temperature, humidity, gradient, location, water sources, and so on)



greatly affect the productivity of agricultural labor. The amount of labor spent on a plot of abundant land yields more than the same amount spent on a plot of less abundant land. The per unit cost of the former is thus lower than that of the latter. Agricultural products grown therefrom are however sold at the same price on the market. Peasants tilling the abundant land therefore reap more profits. This excessive part of profit is derived from land differences rather than production or business operation. This part of profit should therefore be handled by collectives as land rent, instead of being owned by individual peasants. This kind of land rent is called differential rent, which is divided into two types: The first one is formed by differences in the natural fertility and geographical location of land. To put the same amount of investment in plots of land with different fertility and location brings about different productivity, from which develops the first form of differential rent. The other one is formed by successive additional investment in the same plot of land. Subject to certain technical conditions, each additional investment in a plot of land brings about different productivity. Any excessive profit derived therefrom goes to individual peasants during the contract or lease term of the land. But when the contract or lease term expires, or when the collective concerned renews the term, such collective will review its rent assessment by taking into consideration the improvement brought about by their investment in the land. Such kind of differential rent derived by additional investment is called the second form of differential rent.

Be it arable land or bad land, the user of a plot of land must pay rent. This kind of land rent is absolute rent. As land resources are limited, the market price of agricultural products is always regulated by the consumption of labor spent on poor-quality arable land. The profit of agricultural products will not become part of the equalization process of social profits when the flexible composition of agricultural capital is lower than that of industrial one, when the profit of agricultural products is higher than that of industrial goods, and under the influence of land ownership. The balance between value and production price thus becomes the absolute rent and goes to the land owner. Now, there is still the absolute rent in the world though the flexible composition of agricultural capital in some countries is about or even reaches beyond the industrial capital. Under these circumstances, this rent is caused by the price of agricultural products which is higher than their value.

Similarly, both differential rent and absolute rent should be paid for the use of urban land. As urban land is generally transformed from agricultural land, the rent of urban land takes that of agricultural land as the basis. The difference between the two is that: First, the rent of agricultural land is mainly affected by fertility, while that of urban land is mainly affected by site location. Second, as industrial and commercial profits in urban areas are part of the social equalization process, the absolute rent is, unlike the agricultural one, not the balance between the market price of products (that is, the market value)

and the market production price. Instead, it is withheld from the average profit in accordance with the agricultural rent. Third, the rent on urban land is collected by the state because it is the owner of urban land.

There are fundamental differences between the socialist land rent and the capitalist one. In urban areas, the rent collected by the state is eventually spent for the sake of society as a whole. The average profit retained by enterprises will eventually go to the state or collectives. There is no such thing as exploitation. In rural areas, the rent goes to the public accumulation and public undertakings of collectives. Likewise, there is no exploitation.

## II. Functions of Land Rent in the Socialist Commodity Economy

In terms of distribution of surplus products, China's socialist land rent embodies the relationship between the land owner and the land user. Specifically, it is the system in which the state and collectives make use of their land ownership to pool together the excessive profits related to land, whereas average profit goes to the land user. The realization of this type of distribution relationship is favorable to a coordinated development of economy and society as a whole.

First, it is favorable to safeguard the land ownership by the state and collectives, and economize land resources.

Only when the land rent relations are clarified can the ownership of land by the state and collectives be economically realized, can the people then feel the actual existence of land ownership, and can we prevent the land ownership from being infringed upon. Over the years, we neglected the land rent relationship and indulged in the practice of allowing land to lie idle by "eating from the same big pot" in the area of land use. Even overcrowded municipalities such as Beijing, Shanghai and Tianjin had vast lands yet to be utilized. Besides, units that used land needed not spend a cent as the investment in acquired rural land came from the state; and a large piece of agricultural fields was occupied by the growing cities. The phenomenon of arbitrary occupation of land by town and township enterprises and peasants for building houses was very serious in rural areas. To clarify the land rent relationship, and to practice the compensatory use of land help us solve these problems. For example, Fushun city imposed on trial basis in 1984 charges on the use of land. In the following year or so, some units voluntarily returned 650,000 square meters of occupied but empty land or illegally occupied land. Peasant households undertaking nonagricultural production voluntarily returned their fields after some rural areas introduced the system of land lease. Therefore, land was relatively centralized by competent peasants, the intensive agricultural cultivation was promoted, and agricultural fields were fully utilized.



Second, it is favorable to rationalize the economic relations between the state and enterprises, and between collectives and peasants.

Through the collection of land rent, the state pools together the land-related excessive profits for the construction projects directly invested by it; whereas the profit retained by enterprises is allocated for production development, as well as appropriate small-scale construction projects. Therefore, both the state and enterprises get what they want and can perform their duties, which is favorable to a coordinated development between production and construction. Sources of capital for various undertakings pursued by collectives will be guaranteed when the land rent relationship in rural areas is clarified. Besides, individual peasants will get their profits for production development and improvement of livelihood, thereby continuously perfecting the two-tier economic system, which combines centralization with decentralization.

Third, it is favorable for enterprises to compete under fair conditions.

Now, some enterprises are occupying a favorable position in the market competition. This is not because their skill of business management is better. Rather, it is because they have some favorable conditions, one of which is the significant factor of land. By clarifying the land rent relationship, the state will pool together the land-related excessive profits and will help enterprises to compete under fair conditions. Thus, enterprises can hold a share of the market only by relying on their efforts of strengthening their management and reducing their consumption.

Fourth, it is favorable to narrow the regional economic gaps.

The economic development among regions over the years has widened their economic gaps. One of the reasons is that the current policy of interest distribution ignores the influence on excessive profits by the factor of land. Consequently, some departments proceeded from their own interests, and deployed a large portion of their investment at favorable localities like those on the coastal areas and in large and medium-sized cities. By clarifying the land rent relationship and delivering the land-related excessive profits to the central and local governments, we can, on the one hand, urge various departments of the central government to rationally distribute the construction funds; and on the other, help the flow of surplus capital from departments and enterprises in the economically developed areas to the economically underdeveloped areas, thereby gradually narrowing the regional economic gaps.

Fifth, it is favorable to the implementation of municipal construction plans.

At present, most large and medium-sized cities in China encounter difficulties in implementing their municipal construction plans. This is mainly because they lack the powerful economic leverage. We can solve this issue by clarifying the land rent relationship. For example, we may restrict the development of factories, governmental organs and dwelling houses in busy commercial areas by imposing hefty commercial land rent.

In other words, land rent, being a kind of relationship for distributing surplus products, affects the overall situation of the national economy. We must give full play to the functions of land rent when developing our socialist planned commodity economy.

### III. Clarify the Land Rent Relationship, Implement the Compensatory Use of Land

For a long time, we did not understand well about socialist land rent, and the use of land was free. This is closely related with the past economic system. As peasant households were not an independent accounting unit, state-owned enterprises were responsible for collection of revenues and distribution of expenses in a centralized way. By following this practice, that portion of surplus products equivalent to the land rent was taken away by collectives and the state, and the use of land was therefore free of charge. Following the 3d Plenary Session of the 11th CPC Central Committee, however, both the rural and urban areas were reformed and things were changed. After the rural areas implemented the contracted responsibility system with payment linked to output, peasant households became an independent accounting unit. What they pay to collectives as contract fees or retain is mostly land rent. Thus, they have basically adopted the compensatory use of land. After reforming, urban enterprises get their decisionmaking power concerning their capital, and problems about balancing their interests become more prominent. Some enterprises get more profits while some get less, and land is a very important factor in this. The issue of compensatory use of urban land is therefore raised. Our current task is to apply Marxist theory on land rent, to promote an in-depth understanding about the socialist land rent, and to correctly implement or perfect the system of compensatory usage of land by basing on the reformed basis.

1. We should further clarify in rural areas the land rent relationship concerning the use of land.

The rural areas now extensively adopt the contracted agricultural responsibility system with payment linked to output. Though this has reflected the leasing relationship in terms of use of land, this is far from clarity. For example, the profit delivered by many localities is calculated on the basis of equal share among fields and the calculation ignores the differential rent. As a result, fertile and poor fields are mixed together, and the division is too sparse so that one cannot cultivate on a vast field. In order to solve this problem, we must

determine the land's grade of fertility by scientific means and impose the differential rent. Therefore, no matter whether it is a piece of fertile field or poor field, peasants will get similar reward so long as they spend the same amount of labor on their farm work. Furthermore, most town and township enterprises in the rural areas still use land free of charge. This has not only brought about a sharp and chaotic drop of cultivated land, but also widened the income difference between a worker and a peasant, which is highly irrational. The use of land for building houses free of charge has also brought about the arbitrary occupation of cultivated land by individuals for building houses. From now on, we should popularize in the rural areas the system of land leasing, and should adopt the compensatory use of land by individuals for building houses and by town and township enterprises.

2. We should overcome the simple financial viewpoint when implementing the compensatory use of urban land.

Why is it that the urban land owned by the state should be subject to the system of compensatory usage? Some comrades excessively emphasized the point of boosting the fiscal revenue. This is not a thorough understanding. In the past, enterprises delivered all of their profits to the state, and the state's financial revenue in fact included the land rent. After reforms, be it in the form of profits retained by enterprises or substitution of profit delivery by taxes, one cannot but think about his financial capacity. The profit retained by an enterprise is limited and uneven. Some enterprises may get the average profit while some do not. Under these circumstances, we may indirectly cut the profits of the former by imposing the land use fee on them. Otherwise, we shall indiscriminately levy taxes on all of them, and place them in an unfavorable position in competition. The collection of taxes on the one hand and the reduction of financial charges on the other cannot promptly increase the profit of an enterprise. Some enterprises may even encounter difficulties in this respect. If we adopt the compensatory use of land by simply proceeding from the financial viewpoint, we shall force them in one way or another into a blind alley. At present, our main reason for implementing the compensatory use of land is to rationalize the economic relations. Under the outdated system, the relations between the state and enterprises, between production and construction, that among enterprises, as well as the proportional relations among various sectors about the use of land were confused. We have made some headway after years of reforming. To practice the compensatory use of land, and to gradually put the excessive profits under the state distribution will ultimately help rationalize these relations. In the long run, the collection of taxes and charges other than land rent as well as the financial revenue will be gradually increased when the economic relations are rationalized, the production development is quickened.

3. We should distinguish land rent from land investment.

In addition to the free use of urban land, many land-related basic facilities were used free of charge. The state was therefore unable to recover its huge amount of investment in land, and the municipal construction was seriously affected. The practice of compensatory use of land is adopted by various localities. The land use fee collected by some localities actually consists of two parts: The first part is the genuine land use fee, that is, land rent; and the second part is the land investment and profits therefrom. The nature of these two parts is completely different. The land use fee (that is, land rent) is the economic realization of land ownership; whereas operators of land-related basic facilities should recover their investment together with certain profits by selling the facilities as products of land investment. Theoretically, land investment and profits therefrom cannot be taken as the land use fee. The recovery of land investment is an act of reform that further smashes the "same big pot" for capital investment; whereas the compensatory use of land refers to the collection of land rent. Presently, relevant governmental departments have mixed the two when collecting fees. This is mainly because they have not separated the government administration from enterprise management. These departments are both representatives of the land owner and direct undertakers of land development. The urgent task to them is the recovery of land investment rather than the collection of land rent. For example, between 1980 and 1986, the city government of Shenzhen invested more than 600 million yuan of loan grants in land development, and it had to pay annually tens of million of yuan to banks as interest payment. The issue of recovering this amount of investment thus became a prominent one. Governments of other localities also faced similar problems. This situation always misleads one into thinking that the study on land rent is not important. Consequently, some experimental cities did not include the land rent into their land use fee. We should, from now on, distinguish land rent from land investment. One of the specific measures is to let specialized enterprises directly undertake land development while the government is only responsible for the collection of land rent.

4. It is not suitable for China to practice at this stage unchecked assignment and sublet of land.

Land has no value and is not a commodity. In a commodity economy, however, anything which is not a commodity itself can take the form of a commodity through pricing, that is, merchandization. In the capitalist society, land is a subject of purchase and sale. Land price is a capitalized land rent that fluctuates in the wake of changes in interest rates. Many real estate dealers make their fortune by speculating on land. Under the socialist conditions in China, can we make land a commodity? The opinions are mixed at present. My opinion is that it is not suitable for China to popularize the process of making land a commodity.

First, we should understand thoroughly that originally, all basic facilities attached to land are commodities. The

recovery of land investment means the purchase and sale of land-related basic facilities rather than land. Second, the land rent collected from units and individuals by the state and collectives by exercising their right of land ownership is not a form of purchase and sale of land, and there are no commodity exchange relations. Similarly, rental or selling price of houses developed and offered to let or sale by land developing enterprises after paying the land price to the state is not a form of purchase and sale of land though it includes the compensatory land price. This is because the land price paid by land developing enterprises to the state is actually the sum of land use fee during the term of usage, rather than the selling price of the land in question. Let us now turn our focus on the compensatory assignment of land among enterprises. For example, Unit A obtains the right to use a piece of land after paying the land use fee to the state. It may, subject to the approval of the government, assign that piece of land to Unit B because of changes in situation during its land use term. In such case, Unit B pays to Unit A a sum of land use fee in accordance with the land rent level at the time of assignment for the rest of the term. The government will impose a value-added tax if the land use level at the time of assignment is much higher than the original one. Is it a purchase and sale of land? No, it is not. Rather, it is the collection of land rent from Unit B by Unit A on behalf of the state.

Then, what is the merchandization of land? It has its particular meaning, that is, the unchecked assignment or rent of a piece of land for the purpose of making profit. There are only two possibilities in this respect. One of them is that the rental or land price collected by the state at the time of transferring the right to use land is excessively low, so that the unit that occupies the land in question can assign or sublet it within the normal range of land rent and make profit, thereby obtaining a portion of excessive profit which originally belongs to the state. If China popularizes nationwide such a low land price or rent level, it will be favorable neither to the rationalization of relations between the state and enterprises, and among enterprises, nor to the relations among trades. Over the years, the real estate industry in some localities was so blindly developed that it went out of control. This is closely related to the excessively low fee set by the local government so that the industry could make an excessive profit. There has been another situation where units that occupy the land in question speculate on or sublet their land at a higher price after paying the land rent or land price in full to the state. Where does that additional land rent or land price come from? There are only two sources. One of them comes from the average profit of the enterprise that rents the land in question. The other comes from the wages of staff and workers, that is, the income to be distributed according to work. The selling price of commodity flats in various localities has recently been on the increase. This is partly because the land price increases at an abnormal rate, and some units that occupy the land in question speculate on or sublet their land. While these units have made their profits, units and individuals that purchase these flats suffer losses.

This is not a kind of normal relations of commodity exchange. Thus, we can see that it is not suitable for us to adopt the practice as the popularization of merchandization of land is unfavorable to the rationalization of various economic relations. However, we should adopt special treatment for special cases.

**25th Lecture of Forum on Socialist Commodity Economy: Organize Comprehensive Balance in Finance, Credit, Goods and Materials, and Foreign Exchange**

40050372 Beijing HONGQI [RED FLAG] in Chinese  
No 12, 16 Jun 88 pp 38-42

[Article by Dai Yuanchen 2071 0954 2525]

[Text]

**I. Why Should We Organize a Comprehensive Balance in Finance, Credit, Goods and Materials, and Foreign Exchange?**

In the socialist commodity economy, the state organizes its economic operations in a planned way, which requires us to maintain a comprehensive balance in finance, credit, goods and materials, and foreign exchange each, as well as a comprehensive balance among them. This is the major content of macroeconomic control by the state, as well as an important aspect for organizing a comprehensive balance in the national economy. China's experience in its economic work for the past 30-odd years shows that such balance is of great significance.

First, it is a means for balancing the aggregate demand of and the aggregate supply for society. We know that the development of commodity economy in reality never remains in a balanced state. However, in order to enhance the result of utilizing the social resources and to avoid fluctuations caused by excessive economic growth, we need to formulate annually a basic balance in the aggregate demand of and the aggregate supply for society. The aggregate demand of society consists of the total demand of social paying capacity formed by compensation fund, consumption fund and accumulative fund; whereas the aggregate supply for society is formed by and consists of the total supply of the means of production and the means of livelihood produced by society. The issue of making the aggregate demand and aggregate supply dovetail with each other involves the production and consumption, as well as the creation and distribution of national income, of society as a whole. Its comprehensive scope and complicated contents require a simplified method to master it. Such simplified method is to maintain a comprehensive balance in finance, credit, goods and materials, and foreign exchange each, as well as a comprehensive balance among them.

The volume of social demand, formed by financial expenditures and credit grants, is only part of the aggregate demand of society. Originally, there is no corresponding or parallel relations between it and the volume of aggregate supply of society. Nevertheless, be it an urban or rural resident, an enterprise, an organ, an organization or a school, it must have its purchasing power limited by its pocket, and its expenses must not exceed its income. This is not the same in the case of financial credit. As the state has in hand the authority of issuing currency, it may be the case where the state is not restricted by its pocket. It may adopt the practice of excessive distribution so that financial deficits and unfavorable balance of credits are developed. Consequently, the aggregate demand of society exceeds that of supply and an inflation of demand emerges. It is just because of this that it is not necessary for the state to analyze item by item the production and consumption of society as a whole. The state can judge the relations between the aggregate demand and aggregate supply of society, as well as adopt corresponding fiscal and credit policies about and measures for readjusting them, only by determining whether there is a balance between revenue and expenditures, and between credit deposits and grants.

Second, it is an important means for promoting a continuous, steady and coordinated development of the national economy. China's experience in construction over the years shows that people often cherish the good wish of pursuing a faster economic growth even though it is already a fast one, and always thirst for investment. There is always an insufficiency of effective demand in the capitalist economy; whereas in China, there is the long-standing inflation of aggregate demand of society. However, this will cause tension in the market supply. Nobody will make it if the same lot of goods and materials is shared by two different projects. Also, an excessive demand of investment will grab away the necessary raw materials, fuel and power needed by our current production, as well as the necessary equipment needed by our maintenance work, so that even the simple reproduction is hampered. An excessive demand for investment and consumption will even stimulate the market and push up prices, thereby becoming an unstable economic factor. Moreover, the fluctuations in economic development caused by shortage of resources will bring about wastage in various areas.

A point that must be made here is that to strengthen the fiscal and credit control does not simply mean to tighten our belt and suppress the demand. Instead, we should avoid the one-sided act of only cutting expenses and loans. We know that strictly speaking, aggregate supply refers to the supply available in society when the present production capacity is rationally utilized. In reality, the level of supply is closely related to the level of demand. Therefore, we must act appropriately when controlling and regulating the aggregate demand of society by way of finance and credit. We must avoid dislocating distribution so that inflation of demand will emerge, or cutting

demand so low that circulation of goods will be hampered and production will wither. We should rationally utilize the production capacity of society by maintaining an appropriate demand level, thereby flexibly combining our control over demand with our regulation of supply. China adopted over the years the approach of "soft landing" in the control of its demand inflation, has avoided the situation of drastic fluctuation, and has gained much successful experience in this respect.

Third, it creates a good economic and social environment for our construction and reforms. Over the years, China adopted a highly centralized economic administration. Goods and materials were distributed in a centralized way, and coupons were required for consumer goods. Such practice had so many disadvantages that it needed to be reformed. Our experience in reforming over the years has also proved this point. This phenomenon resulted from the traditional economic system that rejected the relationship between commodity and currency and also from the shortage of goods and materials stemming from society's excessive purchasing power. If demand continues to grow and the market remains very tense, then the coupon system, which has been abolished, will have to be restored, and the decentralized power will be repossessed by the upper level. Also, the competition among sellers will become that among purchasers. As a result, any products made can be sold and there will be no competition pressure. Under these circumstances, it will difficult to implement the various plans for economic structural reform.

We must realize that the thirst for investment and quantity growth, as well as the formation of an economy marked by shortage in which the demand is always greater than the supply, are developed because of the traditional economic system and the execution of our principles, policies and measures. In the former case, we must of course thoroughly reform the structure, and cultivate a rather developed market. Only thus can we form an effective, self-constrained and self-regulated mechanism. Therefore, a good economic environment marked by a coordinated supply and demand can only be the result of reform rather than its prerequisite. In the latter case, however, we can still control and regulate the demand by means of policies and measures provided that we really understand the dialectic relations between supply and demand. In the application and allocation of fiscal and credit capital, as well as goods and materials and foreign exchange, we should basically maintain a balance and reserve room for further development, so that the aggregate demand dovetails with the aggregate supply, and a good economic and social environment will be created for the economic structural reform and the commodity economic development.

The present economic situation in China is quite good. We have made headway in both construction and reforms, have put an end to the situation in which we could only get either speed or stability in our development. Moreover, it is developing a new situation where

the national economic growth and stability are developing in a coordinated way. Compared to the previous state, the present situation is getting better rather than more tense, which is the main stream of China's economic development. Of course, we should also realize that we have not fundamentally eased the pressure caused by the demand inflation. There is still the common tendency that regions, departments and enterprises strive to get for themselves as much investment and revenue as possible. It is still impossible to completely stop the noneconomic monetary issue, and the masses are still not mentally prepared to bear price rises. This thus develops the possibility that some commodities become structural shortage and there is an aggregate shortage. Therefore, we should, in our macroeconomic control, strive to promptly adopt various measures for developing the growing stability, and to eliminate the unstable factors in our economic activities.

## **II. How Can We Organize a Comprehensive Balance in Finance, Credit, Goods and Materials, and Foreign Exchange?**

First, we should correctly handle the demand as well as the possible contradictions, and organize a balance in revenue and expenditures. China's economic situation over the years has been a good one. Its production was developed, the market was brisk, and people's livelihood was promptly enhanced. However, there were financial difficulties manifested in the form of deficits because its financial expenditures exceeded its revenue for years. How come there was such a situation? Over the years, we adopted significant policies and measures in the course of reforms, such as boosting the purchase price of agricultural and sideline products, cutting charges and taxes on enterprises, readjusting wages and increasing bonuses, making arrangements for people awaiting jobs, and so on. They are necessary steps and are favorable to our economic development. But there was a time lag between the time we made the adjustments for their benefits and when the economic results were improved by the financial outlay of the state. This cost refers to a drop of proportion of revenue to the national income. As the revenue could not offset the financial expenditures, the situation became very tight. The fiscal situation was weak though there was economic growth. Furthermore, some time must have lapsed before we can pass this "valley."

In these circumstances, we must analyze the situation, and correctly handle the needs of various areas in accordance with the financial capacity of the state. We should control our financial expenditures not only when the financial resources for economic readjustment become scarce, but also when the revenue increases in a good economic situation because of the rigidity of personal expenses. It will be very difficult to cut the base figure of expenditure once it is pushed up. Only when we continue to grasp it firmly and leave room for further development, will it be favorable to achieve a long-term balance in revenue and expenditure.

Second, we should organize a balance in credit receipt and payment by proceeding from production and circulation. The function of bank credit is to meet the demand of loans by agriculture, industry, commercial and other industries by pooling together the deposits of urban and rural residents, as well as administrative units, institutions and enterprises. Currency can be withdrawn from circulation when the growth rate of deposits is greater than that of loans. When the growth rate of deposits is smaller than the demand for loans, then more currency should be released for circulation. The key to organizing a balance in credit receipt and payment is to limit the release of currency within an economic scope.

To achieve this is by no means an easy job. The reason is that one cannot change it at will as the banks' relations of loan granting play an important part in the development of production, the activity of circulation, as well as the smooth progress of expanded reproduction. The current shortage of working capital has already become a prominent issue of the national economy. The reason is that the scale of capital construction is so large that an excessively large sum of capital is absorbed from the working capital needed by other kinds of production and circulation. It is also caused by the present arrangements for construction and investment in plants, as well as the purchase of equipment, which generally only reserve investment in fixed assets but not working capital for backing up purposes. Therefore, a new enterprise must apply for loan grants from banks once it is established and put into operation. In return, banks naturally undertake a much heavier burden in order to supply the working capital for circulation. In situations where no additional fiscal funds will be allocated as working capital, the banks must place top priority on the supply of working capital, and, when they still have the capacity, grant loans for fixed assets investment, so that the production and circulation are promoted and the monetary circulation is under control and readjustment.

In the wake of reforming the financial structure over the years, banks have broken through the constraint that only loans for working capital are available but not loans for fixed assets investment. They have introduced the business of granting loans for technological transformation, medium- and short-term equipment loans and loans for basic construction projects. To a certain extent, these loans make up for the deficiency in terms of fiscal investment and that of insufficient capital encountered by enterprises, thereby promoting a coordinated development of national economy. However, an excessive granting of fixed assets investment loans by banks will bring about an unfavorable balance in credit, and we cannot but increase the monetary supply. This is one of the important reasons that the aggregate demand of society exceeds the aggregate supply. We must therefore not simply check the fiscal loans for fixed assets investment. Rather, we must also check the loans granted by banks for such investment. Only thus can we really control the scale of fixed assets investment.

Third, we should organize a unified balance in fiscal capital and credit capital, and make them support each other when the financial balance and the credit balance each develop a deficit. Banks in a socialist state such as China are owned by the state. The right to issue currency goes to the state. In terms of microeconomics, therefore, we must distinguish the financial capital, which is allocated free of charge, from the credit capital, which is granted with charges. In terms of macroeconomics, we should understand the links between the two, and make overall arrangements and maintain a balance between them in a unified way.

There are close links between financial capital and credit capital, and between the balance in revenue and expenditures and that of credit. They are shown by the fact that the fiscal deposits include such major sources as deposits by the state treasury, deposits for capital construction projects, as well as deposits by administrative units and institutions. The fiscal deposits will be increased when the fiscal revenue is increased and the expenses are cut. Otherwise it will be decreased when the fiscal revenue is dropped and the expenses are increased. This brings about changes in the sources of credit capital. These links also reveal that the subject of bank loans is also the subject receiving the allocated fiscal funds. In order to support the activities of enterprises, the banks must increase the loan grants for working capital when there is a drop in the (or no) allocation of funds for working capital. The banks also often increase the loan grants to enterprises because the enterprises in question have overstocked goods. Furthermore, in socialist countries, the financial capital and credit capital form an integral part readjusting the aggregate demand of society. This thus requires us to maintain a unified balance in them rather than treating them as separate items.

The key to the unified balance in finance and credit rests with the mutual support given by each other when the balance in revenue and expenditure and that in credit receipt and payment each develop a deficit. We must understand changes in the situation and conditions in this respect. The unified balance in finance and credit we mentioned in the past referred to the practice of making up the difference in credit by fiscal measures, and the practice that finance must support credit. This is because the income level of peasants and workers were so low that they left little money after meeting their daily expenses. At that time, the annual growth of savings deposits by residents was just between 1 and 2 billion yuan. The profits, and even the depreciation funds, of enterprises had to be delivered to the upper level. Enterprises were left with no individual fund for their production development. Administrative units and institutions did not have their own long-term deposits; and their balance of funds had to be delivered to the upper level or be made up for the allocated funds. Therefore, the banks often could not meet the demand for loans when their sources of credit capital experienced a limited growth. The credit balance derived therefrom had to be made up by the finance through additional allocation of credit

funds. The finance thus had to take into consideration the balance of credit, in addition to its own balance. Any attempt to ignore the above requirement will boost the scale of construction beyond the level of the state's capacity, and the balance will be undermined.

In the wake of reforming the economic structure over the years, we have gradually put an end to the financial situation of centralized collection revenues and payment of expenses. Enterprises have adopted varied economic responsibility systems, and have had their own funds. Administrative units and institutions have got their reserve funds after adopting various forms of budgeted contracting. These nonbudgetary funds are often used for a particular purpose after years of accumulation, thereby expanding the banks' source of credit capital. In particular, what we should point out is that in the wake of rapid growth in the monetary income of peasants and workers, their savings deposits in banks have grown sharply. The amount of additional savings deposits in 1987 totaled 83.8 billion yuan. Therefore, the banks' source of credit capital was expanded. They no longer depend on the additional allocation of credit capital by the finance; instead, they support it by means of overdraft and loans. We should realize that the savings accumulated by urban and rural residents is a normal phenomenon of economic development, rather than a signal of having an upset macroscopic balance. The increased amount of savings by residents shows that residents favor the flexibility of savings and pursue a difference in the growth of their income and that of their consumption, and shows that the effective demand of residents is dropped. It is just because of this that the money can be used to make up for the growth of loans and the financial deficit.

Fourth, we should organize a comprehensive balance in finance, credit, goods and materials, and foreign exchange. Though the increased ability to repay loans in the arrangements of financial and credit payments is only part of the aggregate demand of society, it plays an important part in the readjustment of the aggregate demand of society and is the key to organizing an aggregate balance. In a commodity economy, an uneven situation of aggregate supply and demand usually ends after the prices and the currency value fluctuate. However, the counteraction of demand on supply will also bring about changes in production. Proceeding from China's experience, an increase in demand always brings about price rises before production is stimulated and supply increased. If we adopt this and that measures for setting a price ceiling in order to maintain a stable price, it will be impossible for an increase in demand to stimulate and boost production. Rather, it will turn the economy into one marked by shortage, in which the supply of goods and materials is tense. On the contrary, a drop in demand always brings about a sluggish sale of commodities and a withering business climate before prices are pushed down. The adoption of tightening policies always have a greater effect on production than that on the prices. This shows that neither expansion nor

tightening is favorable to a steady economic growth. Therefore, when organizing a comprehensive balance in finance, credit, goods and materials, and foreign exchange, we should try our best to avoid an increase or a drop in demand.

Under the conditions of a commodity economy, the organization of balance in social demand and social supply usually means an overall balance. Its structural balance is automatically maintained through market and price readjustment. In China, however, we must systematically organize a structural balance between the social demand and social supply because of its underdeveloped commodity economy and that the mechanism for automatic readjustment is yet to be formed. Hence, when arranging financial and credit payments, we must also make the expenses related to the accumulated funds dovetail with the available amount of the means of production, and make the expenses related to the consumption funds dovetail with the available amount of the means of consumption. Only thus can we ensure that the financial and credit payments are spent on their designated purposes. As the quantity of the means of production, and that of the production of the means of consumption, cannot be changed abruptly, the key to organizing a structural balance rests with the point that we should avoid fluctuations when organizing the demand for investment and consumption. Moreover, we must strive to include as much as possible various goods and materials into the commodity circulation channel, and bring the purchasers to the sellers through market mechanism. We must not practice rationing whenever the market situation is tense, or practice distribution in accordance with the administrative ranking. Otherwise, the commodity circulation will be turned into the distribution of interests. The goods and materials in shortage will be supplied less, and the structural balance in goods and materials will be deliberately upset and worsened.

Fifth, we should organize a comprehensive balance in finance, credit, goods and materials, and foreign exchange. In the wake of development of the foreign economic links, as well as its ever-growing influence on macroeconomic activities, we should also make the task cover a comprehensive balance in foreign exchange payments when organizing a comprehensive balance in the national economy.

The issue of foreign exchange receipt and payment involves many areas, and requires us to take into consideration the overall situation of import and export trade, as well as debts, aids, exchange remittance and tourism, when making a comprehensive balance. One can never strike an absolute balance in foreign exchange receipt and payment, which is either in surplus or in deficit. Having a foreign exchange surplus is internationally regarded as a symbol of economic stability and real growth. However, China is a poor country and a foreign exchange surplus will absorb too much money from our capital, thereby affecting our construction. Furthermore,

the exchange rate of foreign currency against our currency will often become depreciated amid the worldwide inflation. Therefore, it is not good to have either too much foreign exchange deficit or too much foreign exchange surplus. Rather, we should strive to strike a basic balance in our foreign exchange receipt and payment.

Foreign exchange receipt and payment is closely linked to revenue and expenditure. To utilize foreign capital is a component part of revenue and expenditure, and is a means by which a poor country makes up for its foreign exchange deficit. However, a country's financial sector must undertake the repayment of foreign debts together with interest therefrom, and arrange its corresponding national investment. Therefore, in determining the scale of utilizing foreign capital, one must take into consideration the present capacity of his country and its future capacity of repaying the capital. Specifically, he must seriously do well in the feasibility study, compare the input with the output, organize well the corresponding construction and the work of assimilation and absorption, and give full play to the economic results brought about by projects using foreign capital. Only thus will the country have the capacity to repay the capital together with interest. Though this problem is not a prominent one in China, the situation will reach in the coming years the climax of foreign debts repayment, for which we must have mental preparation. In the area of import and export trade, the surplus of foreign trade enterprises is a source of financial revenue; whereas any loss sustained by these enterprises must be made good by the country's finance. Essentially, China's reform of the foreign trade system is to put an end to the outdated system which ignored profits and losses, and to establish a new system of assuming sole responsibility for one's own profits and losses. We must strive to obtain comparative interests, and to increase the national income. China's advantage is that it is rich in labor and natural resources. It is therefore favorable for China to develop foreign trade, which requires us to correctly handle the relations between primary products and intensively processed products, between labor-intensive products and technology-intensive products. We must not ignore the economic results or blindly pursue the upgrading of products and the expansion of scale. Only thus can our foreign trade development no longer be a financial burden and can we get the real advantages.

A special feature of relations between the foreign exchange receipt and payment and the credit receipt and payment is that foreign exchange is opposite to the country's monetary capital though it is also a kind of monetary capital. In actual economic activities, a foreign trade enterprise can obtain foreign currency only after it has made investment in the local currency and has exported its purchased commodities. The more the export, the more the investment in local currency; whereas an increased import of foreign commodities means the payment of foreign currency and the withdrawal of local currency from circulation. The circulation situation of local currency will be improved if there



is a tension in foreign currency. Both foreign capital and credit capital are capital. But a foreign exchange surplus shows an increase in the share credit capital; whereas a foreign exchange deficit indicates an expansion in the source of credit capital. To understand the characteristics of switching these two types of capital will help us regulate the monetary circulation in a planned way.

The actual supply of the means of production and that of consumption will eventually be affected through the import and export of commodities, which is a significant lever for regulating a structural balance. Either a foreign trade surplus or a foreign trade deficit will also affect the aggregate balance. Therefore, it is significant to organize a balance in supply and demand by developing foreign trade. The organization of a comprehensive balance in finance, credit, goods and materials, and foreign exchange just refers to the practice of matching, through a comprehensive balance, the aggregate demand of the whole society in the wake of a regulated finance, credit, and foreign exchange with the aggregate supply of society produced by the national economy and regulated through foreign exchange, thereby promoting a smooth progress in social reproduction.

The comprehensive balance in finance, credit, goods and materials, and foreign exchange is an annual balance. However, we still have to sum up our experience and formulate future plans, and pay attention to smoothly linking the annual plans. This is because China's economic growth is to a large extent affected by agricultural harvests, while the capital construction projects are generally completed in several years. It is also difficult to reduce the wages of additional staff and workers employed by administrative units and institutions. This thus requires us to continue to be sober-minded even when both the agricultural and production growth are in their good time. We should leave room for further development when controlling the growth of demand. Only thus can we deal with the situation when there is a drop in agricultural harvest, and can we ensure a continuous and steady growth of the national economy.

Talking About 'Heterodoxy'  
40050351j Beijing HONGQI [RED FLAG] in Chinese  
No 12, 16 Jun 88 p 43

[Article by V/u Ying 0702 4481]

[Text] The Confucian school in China, from the time of Confucius onward, looked on opinions different from its own as heterodoxy. Confucius warned his disciples: "The study of heterodoxy is injurious indeed." The "Annotation" states: "Heterodoxy: The ways of the unsagelike. The other doctrines such as those of Yang Zhu and Mo-ti." In later times, many of the Confucians who considered themselves the inheritors of the Confucian tradition discriminated against the heterodox. For example, Han Yu of the Tang Dynasty, when describing the origins and development of the successors to the Confucian tradition, wrote in his last few lines:

"...Confucius passed on the teaching to Mencius. When Mencius died, there was no one to carry on." His underlying idea was: Who better than me? He was indeed a person who "rejected heterodoxy."

Cheng Hao of the Song Dynasty was a Confucian who detested heterodoxy. According to the boast in "Biography of Confucians" in "The History of the Song Dynasty": "Cheng Hao obtained the original classics from the previously lost manuscripts. He took the reviving of scholastic dignity as his task and distinguished the heterodox and perverted ideas so that the way of the sage could again be seen in the world." Actually Confucius only held that it would be harmful for his disciples to devote themselves to the study of heterodoxy. However, later Han Yu, Cheng Hao and such people, who considered themselves the latter-day disciples of Confucius, firmly "rejected" heterodoxy, and firmly attacked it as if to ensure that it could no longer continue to exist in the world.

However, the Confucian school in history was not an indivisible block. There were people who saw themselves as inheritors of the Confucian tradition and yet did not reject heterodoxy. Sima Qian was such a person. In the preface to "Records of the Historian" he said: "My father used to say: Five hundred years after the Duke of Zhou died Confucius appeared. It has now been 500 years since Confucius. There must be someone who can succeed to the enlightened ages of the past, who can set right the transmission of the 'Book of Changes,' continue the 'Spring and Autumn Annals' and search into the world of the 'Odes and Documents,' the 'Book of Rites and of Music.' How could I dare to shirk this task?" His tone is similar to that of Han Yu and Cheng Hao, as he followed convention and sounds slightly detestable. However, his "Records of the Historian" which studied "the relationship between heaven and men and showed the changes between the past and the present," had, for the time in which it was written, a very open and progressive spirit and he recorded many heterodox words and deeds. It embraced and included everything. "Tai-shan does not yield any land and thus it is high. The rivers and seas do not reject even small currents and thus they are deep." This book thus became a brilliant work which looked carefully at the past and which illuminated the future. Although Ban Gu, who compiled "Han Shu" criticized "Records of the Historian" for "slandering the sages," this was but pedantry and a surface view. Ban Gu could not hold a candle to Sima Qian.

History advances, but it cannot avoid bringing along with it some of its sediments and vestiges. We of course have a new orthodoxy today. That is Marxism which is written into the Constitution as one of the four cardinal principles. Marxism, as a scientific system, is both open and progressive and its openness and progressiveness has no limits. It can embrace and enclose everything and has a great capacity for digesting and absorbing, thus enriching and developing itself. Therefore it has no need to fear or to "reject" heterodoxy. However, in the last few years



in academic theory circles there has been a small number of comrades who have seen themselves as the legitimate heirs of Marxism and have revealed an attitude of fearing and rejecting heterodoxy. Actually new things are always different and strange. For example, we are a socialist country which upholds Marxism as the guiding ideology, but have advocated opening up and reform, have "special economic zones" and engage in "one country, two systems." These are all new things. If, as soon as they were put forward, they were considered "heterodoxy" and "rejected," would we have the present flourishing situation?

Half a year ago, at the Fourth National Conference on the Westernization Movement, held at Shantou University, the "variant ideas" of Professor Du Jingguo [2629 4842 0948] in respect of the formulation "semicolonial, semifeudal society" as well as his new theory which puts the end of China's feudal society at the 1911 Revolution, caused heated debate.<sup>1</sup> Some comrades said that, although they did not agree with Old Du's ideas, they wanted to propose a call to "protect Old Du." Other comrades said that it was appropriate to propose "protecting Old Du" and that in the academic field it is necessary to spread this idea and to put forward the idea of "protecting minority views" and even "protecting heterodoxy." They also gave the term "heterodoxy" a definition as referring to new ideas which are different from the existing concepts and views.

It should be noted that such discussions which have a flavor of "difference" are not without benefit. If there are no heterodox ideas forthcoming to come into collision with the ossified concepts which are considered "the embodiment of orthodoxy," academic ideas will not be able to develop.

#### Footnote

1. For the first part of Professor Du's serialized article, see GUANGZHOU YANJIU, No 9, 1987

#### Reading 'Portraits of Chinese in the United States'

40050351k Beijing HONGQI [RED FLAG] in Chinese No 12, 16 Jun 88 p 44

[Article by Jin Mei 6855 2734; reprinted from TIANJIN WENXUE [TIANJIN LITERATURE], December 1987]

[Text] We are deeply disturbed by a problem that is growing in intensity. On the one hand, there is an ever-increasing need for knowledge and talents as China's modernization drive pushes its way forward; on the other hand, there is a soaring upsurge of people leaving the country. Naturally we need to make a concrete analysis of this upsurge. While it is true that some people left the country because they yearned for the material civilization of the West, a fair number of people were forced to make such a move for various reasons. These people were by no means blind worshippers of things

foreign. They left only because they had no other alternatives. Many of these people were genuine talents with lofty aspirations. It is not enough just to portray and sing the praises of moving deeds of people who would rather endure humiliation than leave the country, or those who refused to stay behind even though they were offered jobs after their studies abroad. Is there not the problem of people not being able to make use of what they have learned after coming back?

"Portraits of Chinese in the United States," a medium-length feature by Sang Fengkang [2718 6646 1660], a writer who specializes in records of actual events, has drawn widespread attention with its courage to face up to the reality of life and its pungent and forceful style. Unlike most writers writing on similar topics, Sang Fengkang concentrates on exposing the reasons for their flight. "Portraits of Chinese in the United States" truthfully records the experience and mentality of several intellectuals of different backgrounds who have traveled long distances to settle in that distant land.

One of the characters portrayed is Tang Mingxuan, who once taught and did research on contemporary Chinese literature at a teachers training college back in China. He was time and again asked by his relatives in the United States to go there to inherit a multimillion-dollar estate, but he had no plan of leaving. He thought he could do his research better in China. In an effort to improve the quality of his teaching and research, he wrote to a number of renowned writers in Beijing, seeking their suggestions and advice. He even paid them visits at his own expense, but was snubbed. This came as a heavy blow to him, and he eventually emigrated to the United States. The ironic thing is that when he returned to his motherland as an American Chinese not long after, the same writers treated him differently and were only too eager to lick his boots. Their behavior was simply disgusting. When that "great master" who had refused even to see him in the first place found out that Tang not only had a sizable cultural fund at his disposal but was a council member of PEN, he had the face to ask Tang to sponsor his visit to the States, forgetting all about national pride and personal integrity in his eager hope to reach the world through "international ties."

The second and third portraits are those of two young women. Wu Feifei's parents were intellectuals who had returned from overseas studies and "hurled themselves willingly into the net" back in the 1950's. She herself had suffered untold humiliation after her parents were persecuted to death. Upon graduation, she was assigned a good job because she was married to the son of a high-ranking cadre. But she was no more than a "flower vase" in her in-laws' family, with no personal value or dignity to speak of. The anger and lessons which accumulated through the sufferings of two generations, together with her present spiritual sufferings and what she heard and saw being said and done by various

high-ranking cadres, caused her heart to bleed time and again. Under the circumstances, it is only natural that she would act promptly once she had the opportunity to leave the country.

"Portraits of Chinese in the United States" provides us with much food for thought by exposing the various circumstances and reasons which forced its protagonists to leave the country. "The son should not loathe his mother because she is ugly." He is expected to have such a conscience. But when I was reading this book by Sang Fengkang, it dawned on me that a truly dignified, kindly and broad-minded mother and members of her family should face the courage to face up to their shortcomings and make self-examination. Some ignorant cadres among us have no respect for knowledge and do not cherish talents. They are oblivious to the misery they have caused and are still causing new misery.

"Portraits of Chinese in the United States" deals with a very sensitive and thorny issue. Because the author has done a good job selecting his materials, the characters and events portrayed are highly typical and convincing. Through his narration and description, he is also able to reveal the deep sentiments of his characters as people who would also show their love for their motherland and render their service to China if they could. In a logical and detailed manner, he is able to portray the psychological changes these people went through when caught in the sorry situation of having no way to show their love and to serve their country. This book contains a series of soul-stirring laments and outcries through which the reader, in a heavy and somber mood, feels an intense rousing force. Its style of writing, which organically combines a realistic subject matter with historical reflections, has also increased its dimensions and its soul-stirring impact.

### **Thinking About the Reasons for the Phenomenon of Being Late**

40050351m Beijing HONGQI [RED FLAG] in Chinese  
No 12, 16 Jun 88 inside back cover

[Article by Tang Xingshun 0781 5281 7311 of the Propaganda Department of the Linxian County CPC Committee in Henan]

[Text] Last year there was a report criticizing the cadres of some organs directly under the central administration for arriving late to work. Also, a while ago I read in a paper news about a unit in a particular province where they "do not start work until the 15th day of the first month." Phenomena of "lack of organization and lack of discipline" such as these are indeed shocking. However, after being shocked, it might not be a bad idea to think a little about the cause of this: If "they" did observe discipline and came to work on time, what would they do after they got there?

It cannot be denied that there are many organs which are very busy during work hours, or else they have very busy periods or there are persons in the organ who are very busy. However, in general, of the party and government organs at present, there are not many which are busy and there are quite a number with much spare time. At least it can be said that quite a number are not "operating at full capacity." In various offices, outsiders have little knowledge of what time cadres get to work or what they do when they get there. Those within the office have a fairly good idea of what goes on, but are unwilling to "divulge heaven's secrets" to the outside. Only if one has a friend who observes things inside is it possible to get the "behind-the-scenes story." After getting to work, there are three things which have to be done—sweeping the floor, wiping the table and fetching the boiled water. After this, one sits in meditation, has a cup of tea, a cigarette and reads the paper for half the day. After sitting for a long time, one gets bored and depressed. Someone then tells some village market anecdotes and presents some vehement views on the current policy situation. When something funny is said, laughter fills the room and when things heat up, contending views and differing opinions fill the building. When outsiders come to conduct business, everyone straightens their clothes, sits properly and assumes a "busy" appearance. The other day, I had a letter from a friend who works in a large organ in a certain city. He said that the head of his section was worried as, in accordance with the requirements of the upper levels, he had to formulate a post responsibility system where each person has individual duties. However, the section did not have much to do and it was difficult to assign individual responsibilities to the six people in the section. The only way out was to write in the section for "management target" empty phrases such as "seriously reading books and studying" and "completing work tasks." It can be seen that there really are units which have difficulty finding things to do 365 days of the year. This easily tempts people to think: Why go to the office and be bored? It is better to handle some personal things at home. Thus, the phenomenon of "arriving at work late" is the result of work responsibilities not being clearly defined, work load being insufficient and even of some having nothing to do.

In these "nothing-to-do" units, there are two situations which should be given our attention: The first is when there is truly nothing to do. In order to get some attention, "temples" are set up for no reason and some monks are appointed to run them. As they are just decorations, naturally there is no need to "read the classics and strike the bells." Or else, there are organs which have come down through time and which should have been abolished long ago, but were not, and thus they have nothing to do. The other situation is one whereby there are "things to do" but they cannot find "the ways of doing them." This type of organ often has not changed its functions following the development of the situation and has not entered the great tide of reform. Although the tasks are numerous, the organs feel that "there is nothing they can do." Thus the problem of

"laxness and indiscipline, slackness and weakness" appears. In resolving such problems we can no longer use the "method of treating the symptoms" whereby "one treats the head when it aches and treats the foot when it hurts." Rather, we need to go to the basic cause and resolve the problem on the structural level. Those temples which should be removed should be firmly done away with and those matters which should be handled should be managed in a serious way. In this way, the conveyor belt of overall work will operate at full capacity and all the problems which have shown themselves will naturally be completely eliminated.

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